PRESS RELEASE

for immediate distribution

Melcor Developments announces results for 2022, declares $0.16 per share dividend and appoints Naomi Stefura as COO

Edmonton, Alberta | March 16, 2023

Melcor Developments Ltd. (TSX: MRD), a real estate development and asset management company with operations across western Canada and in the United States, today reported results for the fourth quarter and year ended December 31, 2022. Revenue decreased by 23% to $241.75 million in 2022 compared to a record high of $315.63 million in 2021. Net income was up 59% to $89.35 million or $2.75 per share (basic) in 2022, compared to $56.31 million or $1.70 per share (basic) in 2021. Net income is impacted by non-cash items including fair value adjustments on REIT units and investment properties. These fair value adjustments are due to market factors outside management's control and that is why management prefers funds from operations (FFO)(1). FFO per share was down 24% to $1.88 per share in 2022 compared to $2.46 per share in 2021 correlated with decreased revenue.

Tim Melton, Melcor's Executive Chair and Chief Executive Officer, commented on the year: "I'm pleased to announce another year of satisfactory results for the company as Melcor enters its 100th year as a real estate focused company. We achieved revenue of $241.75 million and net income of $89.35 million.

Melcor had a successful year, with steady demand in Canadian markets and increased momentum in the Calgary region where two new communities were introduced over the past few years with plans for additional communities to be launched in 2023. The big outlier for the year was the lack of community sales in the US. Community sales revenue in the US is typically characterized by bulk sales agreements, which can result in variability from one period to another, making it challenging to compare results over time.

We completed the sale of 117 residential units in the US, generating cash of $35.00 million (US$26.15 million). These properties were originally purchased between 2010 and 2013 for $11.94 million, which represents a gain of $23.06 million. Subsequent to the year, we returned $24.01 million (US$18.00 million) in cash to Canada to reduce borrowings on our credit facility as we navigate interest rate uncertainty.

Our commercial income divisions, Investment Properties and REIT, contributed $117.12 million in revenue up 4% over the prior year with growth in square footage owned and improved occupancy. Their higher contribution to revenue also improved gross margin for the year to 49% from 44% last year. Investment Properties manages 4.80 million sf of commercial GLA and 476 residential units (including property owned by the REIT). The Recreational Properties division also had a successful year despite weather conditions leading to a shorter golf season than 2021.

In 2022, we increased our dividend 32% to $0.58 per share. We also repurchased the maximum shares allowable under our Normal Course Issuer Bid, thereby reducing shares outstanding by 5% and increasing each shareholders' ownership position marginally.

I am also pleased to announce the appointment of Naomi Stefura as Chief Operating Officer (COO) of the company. Naomi has been an exceptional CFO, and we are confident that she will excel in her new role while concurrently holding her position as CFO. During her 14 year tenure with Melcor, Naomi has demonstrated an unwavering commitment to the company's values, and has gained a deep understanding of the company's operating divisions. She has earned the respect of all stakeholders, including the board, employees, and partners. Naomi's promotion to COO is a testament to her hard work, expertise, and leadership skills. It is my pleasure to work with Naomi, and the entire Melcor team, to achieve our company objectives.

On behalf of the board and all shareholders, I wish to acknowledge the entire Melcor team for their hard work and commitment to serving all company stakeholders and producing good results for the company.

Rising interest rates, combined with general inflation and geopolitical conflict provided some pause in 2022; however, we remain confident that our assets position the company to navigate changing economic times as we have done for the past 100 years.

In closing, Melcor wishes to thank shareholders for their continued support and confidence. We remain committed to protecting and enhancing your investment in the company."

Today the Board declared a dividend of $0.16 per share, payable on March 31, 2023 to shareholders of record on March 24, 2023. The dividend is an eligible dividend for Canadian tax purposes.

(1) Readers are reminded that established key performance measures may not have standardized meaning under GAAP. For further information on the Melcor's non-standard measures, non-GAAP measures, operating measures and non-GAAP ratios, refer to the information in the press release below along with the Non-GAAP and Non-Standard Measures section on page 39 of the MD&A

Selected Highlights

($000s except as noted)	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2022	2021	% Change	**2022**	2021	% Change
Revenue	**76,261**	150,598	(49)%	**241,747**	315,628	(23)%
Gross margin (%)[3]	**48.6 %**	40.3 %	23 %	**48.9 %**	44.4 %	10 %
Fair value adjustment on investment properties	**21,801**	9,330	120 %	**21,554**	19,370	11 %
Net income	**37,202**	44,769	(17)%	**89,354**	56,311	59 %
Net margin (%)[3]	**49 %**	30 %	64 %	**37.0 %**	17.8 %	108 %
Funds from operations[1]	**22,297**	42,311	(47)%	**60,859**	81,327	(25)%
Per Share Data ($)						
Basic earnings	**1.15**	1.35	(15)%	**2.75**	1.70	62 %
Diluted earnings	**1.15**	1.35	(15)%	**2.74**	1.70	61 %
Funds from operations[2]	**0.68**	1.27	(46)%	**1.88**	2.46	(24)%
Dividends	**0.68**	1.27	(46)%	**0.58**	0.44	32 %

As at ($000s except share and per share amounts)	December 31, 2022	December 31, 2021	% Change
Shareholders' equity	**1,178,336**	1,116,469	6 %
Total assets	**2,167,050**	2,113,927	3 %
Total Shares outstanding	**31,248,628**	32,961,015	5 %
Book value[2]	**37.71**	33.87	11 %

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.
(2) Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.
(3) Supplementary financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.

Consolidated revenue for 2022 was $241.75 million down 23% from the record revenue set in 2021. Gross margin was 49% due to higher contributions from our higher margin commercial properties divisions. Net income was up 59% to $89.35 million and FFO was down 25.2% to $60.86 million. Although FFO was down, we also generated additional cash through the sale of US residential units for proceeds of $35.00 million, not reflected in FFO. This represents a gain of $23.06 million, however as Investment Properties are carried at fair value, the increase would have been captured in fair value adjustments in the current and comparative periods.

The significant factor in comparing our results to the prior year is the lack of US Community Development sales in 2022. In 2021, this region sold 280 lots and 155 acres (595 paper lots) for revenue of $54.89 million and earnings of $21.18 million. In the current year, no lots or acres were sold. Land sales in the US differ from Canadian as we often sell the lots in bulk agreements leading to dramatic swings in sales period over period. New home sales in our Canadian regions remain strong, resulting in 1,060 single-family lots being sold compared to 1,261 lots in 2021.

Property Development revenue is primarily derived from internal transfers to our Investment Properties division. In 2022, the value of transfers to Investment Properties was $13.63 million (eliminated on consolidation). Transfers added 36,846 sf (5 retail buildings) to our portfolio of income-generating properties. Margins on transfers was 17%, up compared to 2021.

Investment Properties revenue was up 10% due to GLA growth (transfers from the Property Development division) and improved occupancy. As mentioned above, the division also sold 117 residential units in Phoenix, Arizona for $35.00 million (US$26.15 million) net of transaction costs. These sales are not included in revenue however the value of the assets increased over time through both exchange rates changes and market improvements, contributing to a total realized gain on sale of $23.06 million. As the properties were unencumbered at the time of sale, they contributed $35.00 million cash to proceeds from investing activities. Subsequent to year end, $24.01 million (US$18.00 million) was repatriated and used to pay down our line of credit.

Revenue in the Recreational Properties division was up 5% with slightly lower revenue from green fees due to weather conditions during the golf season offset by an increase in food and beverage revenues over 2021.

The US contributed 7% of total revenue or $15.83 million in the year, all from Investment Properties. This compares to 2021 revenue of $70.38 million (22% of total revenue). As noted above, the large swing in US revenue was due to timing of sales in our US Community Development.

Throughout the year, we maintained our conservative and disciplined approach to investment and development activities and the management of our assets and liabilities.

Investing for growth

We purchased 13.01 acres adjacent to other holdings in Buckeye, Arizona. This land is immediately developable and fits our strategy of purchasing land to rezone in the US. While we may participate in strategic land purchase opportunities such as this, our primary focus is on harvesting our current inventory of 9,857 acres.

Our Property Development division completed and transferred 5 buildings (36,846 sf) in 2022 with a further 61,850 sf under development, with all completed buildings at year end transferred to our Investment Property division. Revenue from the Property Development division is eliminated on consolidation. Transfers to Investment Properties will positively impact results in future years as we continue to grow our income-producing assets for long-term holding or for sale to the REIT. We continued to progress commercial land through the development, approvals and lease-up process and have an additional 6 buildings in 4 projects expected to be completed and transferred to Investment Properties in 2023.

Asset Dispositions

During the year, we sold 117 residential units in Arizona for $35.00 million (US$26.15 million) net of transaction costs.

We also entered into an unconditional agreement to sell a REIT-owned investment property for gross proceeds of $19.50 million ($19.03 million net of transaction costs). This asset was reclassified as asset held for sale at year end and was subsequently sold on February 1, 2023.

Shareholder Highlights

We continued to return value to our shareholders and unitholders:

Melcor Developments:

We increased dividends paid to shareholders by 31.8% to $0.58 per share (2021 - $0.44 per share).

On March 16, 2023 we declared a quarterly dividend of $0.16 per share, payable on March 31, 2023 to shareholders of record on March 24, 2023. The dividend is an eligible dividend for Canadian tax purposes.

We have been paying dividends since 1969.

On December 22, 2022, Melcor filled the current NCIB by purchasing the final shares bringing the total purchased 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.

Melcor REIT:

The REIT distributed $0.48 per unit to unitholders in 2022 compared to $0.45 per unit in 2021. Subsequent to the year, the REIT declared distributions of $0.04 per unit for January, February and March 2023.

The REIT has been paying distributions since inception in 2013.

Outlook

Melcor owns a high quality portfolio of assets, including raw land, developed land inventory (residential lots and acres for multi-family and commercial development), income-producing properties and championship golf courses.

Alberta, our largest market, has undergone dramatic changes throughout the past few years, due to volatile oil prices, pandemic operating constraints and rising interest rates. We have diversified our business across asset class and geography, including investment in the US with raw land and commercial property acquisitions and the continued development of our community in Aurora, CO.

Inflation and interest rate increases have generally slowed the Canadian market however we have found stable demand for quality new homes and office and retail space. Alberta is projected to have Canada's highest GDP growth in 2023.

We expect to develop approximately 1,000 new single-family lots across our portfolio in 2023 to meet market demand. On the commercial side, retail activity remains steady and we expect that to continue in 2023. Although our 2022 US Community Development division did not provide us with strong results, we have a positive outlook for 2023.

Our business model has adapted to changing times and economic cycles over the years. We will maintain our disciplined, conservative approach to operations to ensure that we remain profitable while achieving our fundamental goals of protecting shareholder investment and sharing corporate profit with our shareholders.

With appropriate levels of serviced land inventory, movement of residential and commercial land through the municipal approvals process, steady occupancy rates and capacity on our operating facility, we remain well-positioned for the future.

Non-GAAP & Non-Standard Measures

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

FFO Reconciliation

Consolidated

($000s)	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2022	2021	**2022**	2021
Net income for the period	**37,202**	44,769	**89,354**	56,311
Amortization of operating lease incentives	**1,941**	2,238	**7,561**	8,160
Fair value adjustment on investment properties	**(21,801)**	(9,330)	**(21,554)**	(19,370)
Depreciation on property and equipment	**209**	227	**1,350**	1,334
Stock based compensation expense	**(6)**	370	**841**	1,132
Non-cash financing costs	**(607)**	(668)	**(8,518)**	3,479
Gain on sale of asset	**(3)**	(24)	**(40)**	(151)
Deferred income taxes	**8,214**	5,288	**8,225**	4,684
Fair value adjustment on REIT units	**(2,852)**	(559)	**(16,360)**	25,748
FFO	**22,297**	42,311	**60,859**	81,327

Investment Properties

($000s)	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2022	2021	**2022**	2021
Segment Earnings	**31,399**	11,755	**48,097**	31,077
Fair value adjustment on investment properties	**(26,212)**	(7,374)	**(25,663)**	(10,850)
Amortization of operating lease incentives	**447**	410	**1,620**	1,624
Divisional FFO	**5,634**	4,791	**24,054**	21,851

(1) Refer to note 24 to the consolidated financial statements

REIT

($000s)	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2022	2021	**2022**	2021
Segment Earnings	**485**	10,019	**27,723**	43,710
Fair value adjustment on investment properties	**9,130**	(214)	**11,995**	(2,879)
Amortization of operating lease incentives	**962**	1,251	**3,725**	4,218
Divisional FFO	**10,577**	11,056	**43,443**	45,049

MD&A and Financial Statements

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

Annual General Meeting

We invite unitholders to join us at our annual general meeting on April 26, 2023 at 11:00 AM MT at the Fairmont Hotel Macdonald, Empire Ballroom, 10065 100 Street NW, Edmonton, AB. The meeting will also be webcast at https://www.gowebcasting.com/12427

About Melcor Developments Ltd.

Melcor is a diversified real estate development and asset management company that transforms real estate from raw land through to high-quality finished product in both residential and commercial built form. Melcor develops and manages mixed-use residential communities, business and industrial parks, office buildings, retail commercial centres and golf courses. Melcor owns a well diversified portfolio of assets in Alberta, Saskatchewan, British Columbia, Arizona and Colorado.

Melcor has been focused on real estate since 1923. The Company has built over 140 communities across western Canada and today manages 4.8 million sf in commercial real estate assets and 476 residential rental units. Melcor is committed to building communities that enrich quality of life - communities where people live, work, shop and play.

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

Forward Looking Statements

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

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

This news release and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent Melcor's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Future-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2020 and beyond, future development plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook of our operations.

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

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

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Management's Discussion & Analysis

March 16, 2023

The following discussion of Melcor's financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 2022.

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

The statement of financial position is presented without reference to current assets or current liabilities. The operating cycle of an entity involved in real estate investment and development is normally considered to be longer than one year. Thus, the concept of current assets and current liabilities is not considered relevant and there is no need to segregate the balance sheet to disclose assets or liabilities that are expected to be settled within the immediately following year.

Melcor's Board of Directors, on the recommendation of the Audit Committee, approved the content of this MD&A on March 16, 2023.

Other Information

Additional information about Melcor, including our annual information form, information circular and annual and quarterly reports, is available on SEDAR at www.sedar.com.

Non-standard Measures

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

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Our Business

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

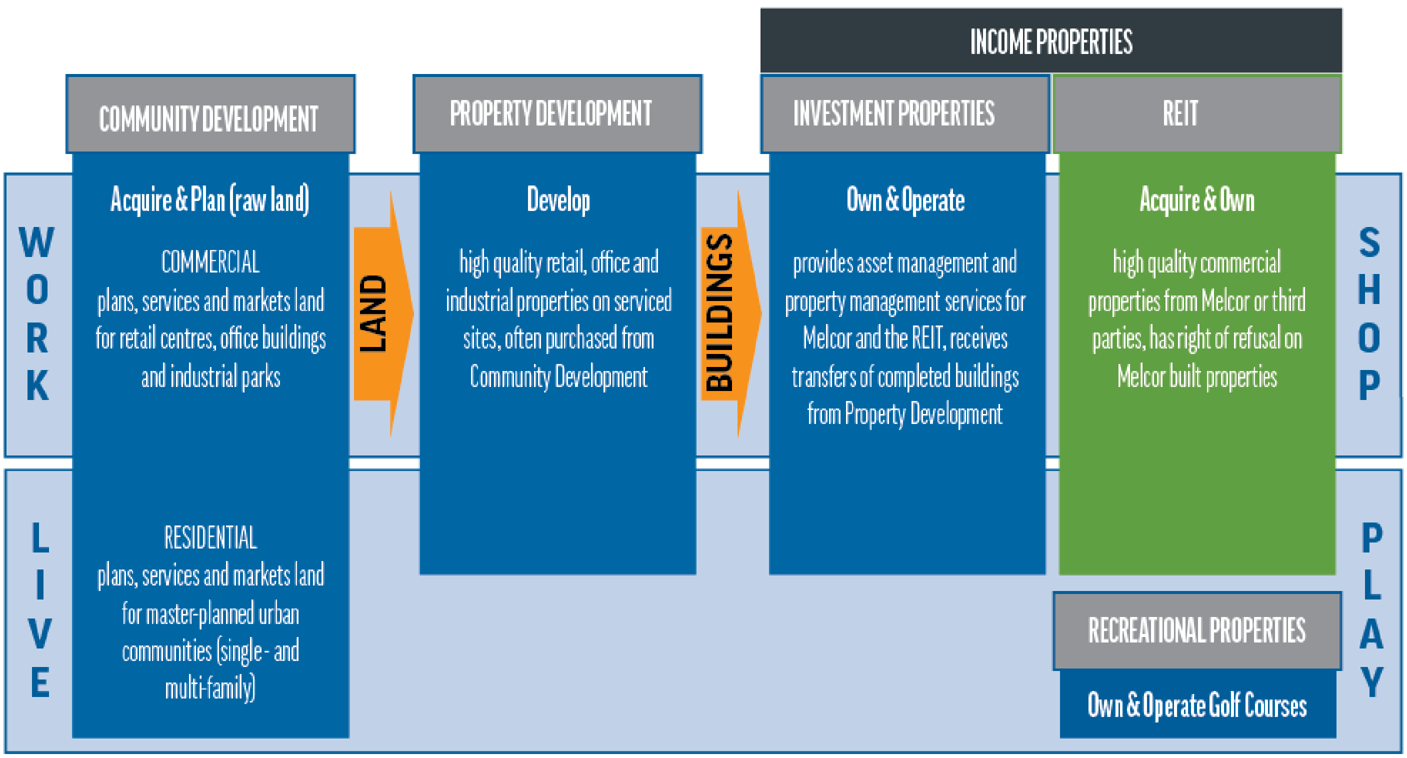
Since 1923, our focus has been the business of real estate. We've built over 170 communities and commercial projects across western Canada since the 1950s and have helped to shape much of Alberta's landscape. We manage 4.80 million square feet (sf) in commercial real estate assets and 476 residential rental units. We have been a public company since 1968 (TSX:MRD).

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

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

1 Community Development: acquiring raw land and planning residential communities and commercial developments
2 Property Development: project managing development, leasing and construction of commercial properties (Property Development)
3 Income Properties: operating a portfolio of commercial and residential properties, focused on property improvements and capital appreciation of owned properties and property and asset management of REIT owned properties (comprised of Investment Properties and the REIT divisions)
4 Recreational Properties: owning and operating championship golf courses associated with our residential communities.

Melcor has $2.17 billion in assets. The following diagram illustrates how each of our operating divisions complements one another to create and enhance value from our real estate assets.



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

While building a sustainable business, we also focus on building sustainable communities by sharing our time and resources to make them stronger. We are proud to support a number of worthy causes and charities that enrich the communities where we operate.

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

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

Strategy

Our fundamental goals are to:

- protect shareholder investment through prudent risk management and careful stewardship of company assets
- grow shareholder value by achieving strong operating performance and return on invested capital
- distribute profit to shareholders through a reliable dividend
- promote a strong and healthy corporate culture by taking care of our exceptional team
- build strong and positive relationships with our stakeholders

Our operating focus is to deliver high quality products and industry-leading value in each of our segments: developing master-planned communities, constructing and leasing commercial properties, managing our income-generating portfolio and operating championship golf courses.

We balance our capacity to participate in strategic growth opportunities with sustaining and improving our existing businesses.

Community Development: Cautious Development

Rising interest rates through 2022 contributed to slightly lower demand for new homes coming off of the record sales achieved in 2021.

We continue to manage inventory levels to meet demand.

Community Development division had an active construction season in all regions in 2022; we developed 1,091 new single-family lots and sold 1,060, leaving modest inventory levels coming into 2023.

Momentum throughout the year was strong in new communities launched over the past few years as well as our more established communities. In-migration from other provinces into Alberta continues as a notable trend.

The new home market in 2023 is more balanced across all price points, a shift from the past few years where the demand centered on more affordable product such as townhomes, duplex, zero lot line or traditional single family with secondary suites to assist with mortgage qualifications. We developed 130 and sold 113 estate lots, up from 90 estate lots sold in 2021.

The US housing market contracted more significantly in response to rising interest rates, and no sales were completed in 2022. We developed 234 single-family lots in Harmony (Denver, CA area) to replenish inventory.

Property Development: Strength in Neighbourhood Shopping Centres

Commercial property development, particularly neighbourhood shopping centres, continues at a solid pace as pre-lease thresholds are met. With a focus on local services – bank, coffee, daycare, dental/medical, gas, grocer, pharmacy, restaurants and fast food – these retail hubs face less competition from online shopping options. The Property Development team built and transferred 5 retail buildings (36,846 sf) located in 4 neighbourhood shopping centres throughout Alberta.

Revenue Diversification Strategies Paying Off

Our geographic and revenue source diversification strategies have served to offset the cyclical nature of Canadian residential development.

Our Income Property segment manages 4.80 million sf of income-generating assets, providing stable results throughout the year to smooth out the seasonal nature of construction related divisions. This represents growth of 23% in GLA over the past 5 years, with Investment Properties and the REIT comprising 43% of total revenue and 60% of total gross profit.

We have 99 years of experience in Alberta's cyclical economy. Throughout this time, we have managed through many downturns and have learned to not only weather the cycle, but to make our business stronger by recognizing and participating in opportunities while balancing our risk and exposure. All economic indicators point to upward momentum in Alberta's economy and we are well-positioned to participate in opportunities while also maintaining our conservative approach to real estate development.

Pillars of our Strategy

The following diagram illustrates the pillars of our strategy, which are to **grow** by acquiring strategic land and property and exploring strategic opportunities to increase capital resources; to **sustain** by remaining disciplined in monitoring and managing our key performance drivers and our reputation; to **diversify** by developing real estate assets for revenue, earnings and cash flow growth and by increasing our presence in the United States. **People** are the heart of our strategy, and we commit to protecting our culture and values and taking care of our exceptional team.

Assets

Our raw and developed assets and conservative approach to debt place Melcor in a strong position to achieve our growth strategy. We will continue to develop our real estate assets to support current and future revenue, earnings and cash flow growth.

Division	Assets	Strategy
Community Development	9,857 acres of raw land inventory in strategic growth corridors	Maintain right mix of inventory, available at the right time to meet market needs Increase market share by maintaining best in class design and community amenities
Property Development	Prospects for 4,408,740 sf of new development based on existing plans Completed and transferred 36,846 sf (5 buildings) in 2022 61,850 sf is currently under construction.	Plan, build and lease retail, office, industrial and multi-family residential real estate projects Maintain 3-5 year inventory of developable assets Maximize value of existing assets through vertical development or re-development
Investment Properties & REIT	4,804,248 sf of commercial property and 476 residential units under management, diversified across 4 asset classes in 3 provinces and 2 states As Property Development projects are completed, our GLA continues to grow.	Improve existing assets with value-added investments to achieve higher occupancy rates and increase rent per square foot Provide consistent, high-quality service to tenants Seek strategic acquisitions or dispositions of assets
Recreational Properties	4 championship golf courses.	Maintain strong reputation through consistent course quality and player experience Grow revenue from food and beverage operations

Diversification

Our operating divisions diversify our revenue streams in a number of ways:

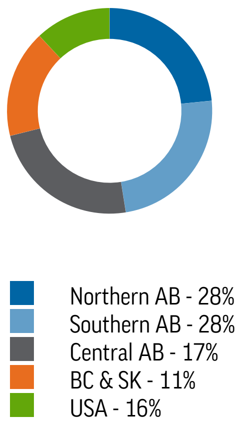
- The mix of land and property types held (residential, office, retail, industrial)
- The regional profile of our assets (Alberta, Saskatchewan, BC & western/southwestern US)
- The type of revenue each asset generates (including steady revenue from income-producing properties and revenue that fluctuates by season and by market demand)

Community Development is one of our most geographically diverse divisions and invests in Canada and the US to build inventory for future development. This division holds land for future residential or commercial development in strategic growth corridors. It is diversified through the life cycle phase of different land parcels: a balance is struck between lands that are immediately developable ('shovel ready'), those that will be ready for development in 3 to 5 years, and those with a development horizon of 5+ years.

Melcor has been planning and developing innovative communities since the 1950s. We have developed over 40,000 lots in over 150 communities across Alberta, BC and the United States. We currently have 9,857 acres of land for future development (at Melcor's percentage).

LAND INVENTORY

Inventory by Region



Inventory by Land Use

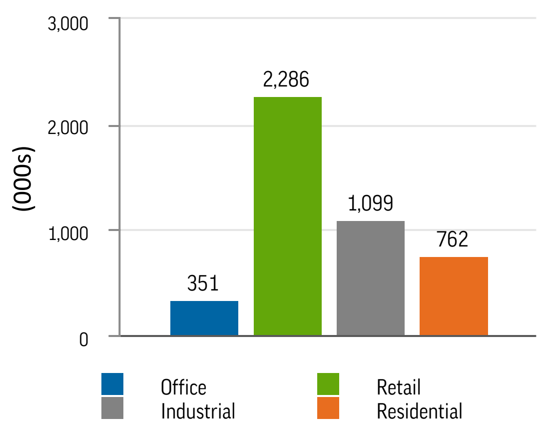
Property Development adds value to raw land by developing retail, office, industrial and multi-family residential properties in Alberta.

The Property Development division supports Melcor's strategic objectives of asset diversification, income growth and value creation by constructing income-producing developments, primarily on land acquired from the Community Development division. On completion, the properties are transferred to Investment Properties, thus completing the value chain from raw land to annuity income. The REIT has the right of first offer to purchase completed and leased properties, enabling us to monetize the value created while retaining a long-term controlling interest in the asset.

Melcor has been developing commercial properties since the 1970s and has built over 2.5 million sf. Our future development pipeline is 4.4 million sf based on current development plans.

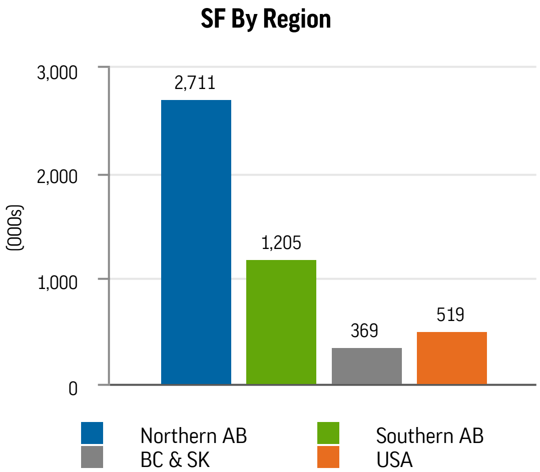
PROPERTY DEVELOPMENT

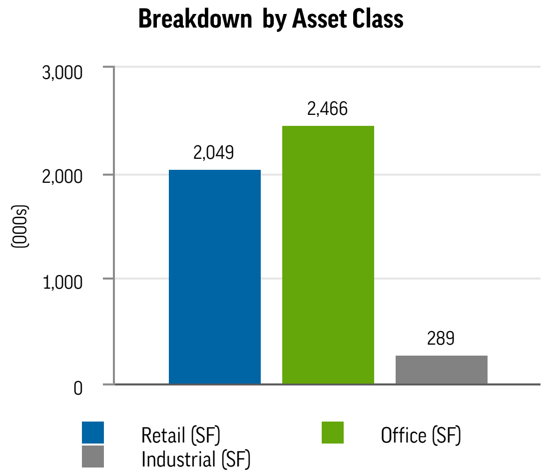
Future Development SF



Investment Properties manages 4.80 million sf of geographically diverse income-producing assets (including those owned by the REIT) to provide consistent annuity income and cash flow. Our total portfolio under management is diversified across asset class, property mix and region. The regional asset mix is primarily commercial in western Canada, with the majority of these assets owned by the REIT. Our US portfolio is a blend of residential and commercial properties. The goal of the Investment Properties division is to provide exceptional customer care to retain tenants for the long term. We continually enhance and improve existing properties through capital investment to maximize occupancy, rental rates and tenant retention and prepare properties for vend-in to the REIT.

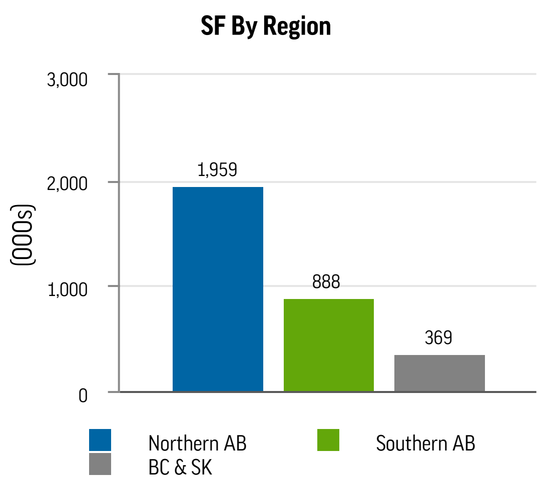
TOTAL GLA MANAGED

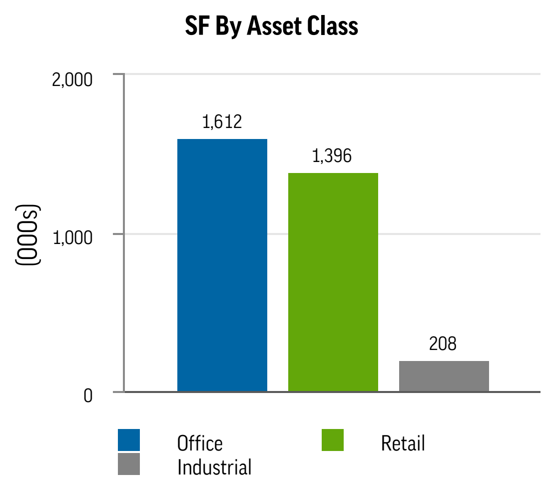




The REIT owns 3.22 million sf of income-producing assets that are managed by the Investment Properties division. The REIT is a vehicle for realizing the value created throughout the Melcor value chain as raw land is developed for commercial use (Community Development) and commercial properties are built (Property Development) or redeveloped (Investment Properties) and sold to the REIT. The REIT will continue to seek and execute acquisitions to grow its portfolio, both through the Property Development pipeline and third party acquisitions. To date, the REIT has acquired over 1.0 million sf from Melcor and 745,000 sf from third parties.

TOTAL GLA OWNED BY THE REIT

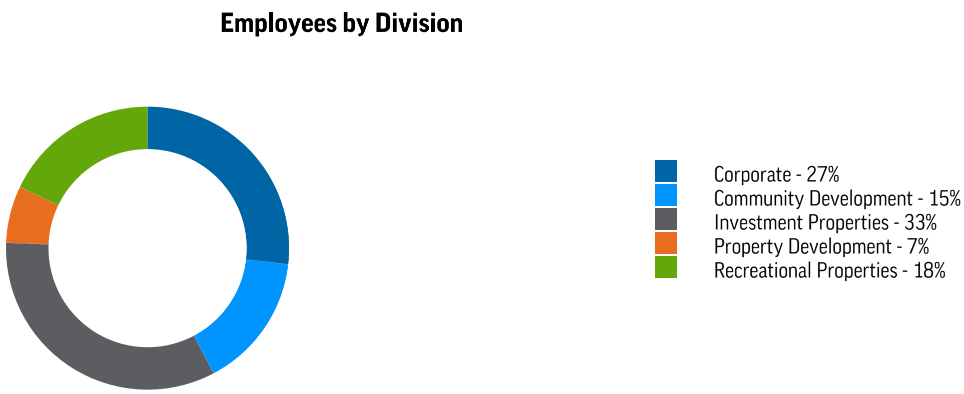




Key Performance Drivers

A High Performance Team

A strong and engaged workforce is a key component of achieving our growth objectives. Our team fuels our success by profitably managing residential and commercial development, continually moving future projects through the municipal approval process, managing our assets and ensuring tenant satisfaction, and developing strong relationships with our suppliers, contractors, builders, tenants and other stakeholders. The average tenure of our team is 9.80 years and we have 23 team members (9 active) on Melcor's Quarter Century Club.



Our culture is based on 100 years of strong core values. We offer rewarding career development opportunities, competitive compensation and benefits, and employer-matched RRSP and employee share purchase programs (ESPP). Managers and the executive team also receive restricted share units (RSUs).

Real Estate Inventory

Our existing real estate inventory puts us in a good position to continue to grow our business as market demand dictates. We have:

- 9,857 acres of developable land
- 4,804,248 sf of leasable commercial property and 476 residential units under management in 3 provinces and 2 states
- Potential to develop over 4.4 million sf of new commercial property (based on current planned development)

We create shareholder value out of our land assets by developing them into revenue and income earning properties.

Inventory management is a critical component of our future success. Land development is a capital-intensive process requiring long time horizons to obtain permits and development agreements. As such, we closely monitor the fundamentals of the regions where we operate to ensure that we have the correct land mix to meet market demands and that the land is ready for sale when demand dictates.

Developed lot inventory

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

	December 31, 2022				December 31, 2021			
	CANADA			USA	CANADA			USA
(including joint arrangements at 100%)	Single-family (Lots)	Multi-family (Acres)	Non-residential (Acres)	Single-family (Lots)	Single-family (Lots)	Multi-family (Acres)	Non-residential (Acres)	Single-family (Lots)
Open	683	61.71	123.30	1	648	59.00	126.09	4
Transfers	–	(3.34)	–	–	–	–	–	–
New developments	1,091	12.89	7.36	234	1,296	5.30	3.45	277
Internal sales	–	–	–	–	–	–	–	–
Sales	(1,060)	(13.07)	(2.86)	–	(1,261)	(2.59)	(6.24)	(280)
Year end	714	58.19	127.80	235	683	61.71	123.30	1

Our Canadian markets saw steady demand in the year. Throughout the year we brought on 1,091 (2021 - 1,296) new single-family lots, and sold 1,060 (2021 -1,261) to our builders. Edmonton remained the busiest of our regions with 568 new lots developed and 616 lots sold (889 new lots developed and 799 sold in 2021). With several newer communities gaining momentum and two new communities planned for the Calgary region, we anticipate this region generating the bulk of activity in 2023.

Harmony (Denver, CO area) is our one community under active development in the United States. The US response to interest rate increases and other less favourable market conditions in 2022 was softer demand for new homes. We continued development in Harmony and brought on 234 lots which we anticipate selling in 2023. The US Community Development model differs from Canadian markets, with the majority of revenue occurring in a single quarter. Builders bulk purchase lots to build homes to sell to homeowners. No lots were sold in the US in 2022.

We remain committed to managing our risk in uncertain markets by ensuring that market demand is in place prior to proceeding with development. We are well positioned to respond to current market strength and have a strong development program in place for 2023.

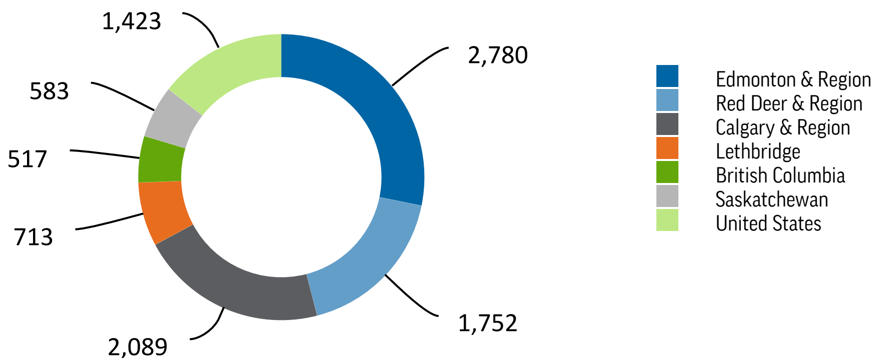
Raw land inventory

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

Land purchases (in acres, net of joint arrangement interests)	**2022**	2021	Total Holdings
Edmonton & Region	–	–	2,780
Red Deer & Region	–	–	1,752
Calgary & Region	–	–	2,089
Lethbridge	–	–	713
British Columbia	–	–	517
Saskatchewan	–	–	583
United States	13	17	1,423
	13	17	9,857

We purchased 13.01 acres adjacent to other holdings in Buckeye, Arizona. This land is immediately developable and fits our strategy of purchasing land to rezone in the US. While we may participate in strategic land purchase opportunities such as this, our primary focus is on harvesting our current inventory of 9,857 acres, located in our operating regions as follows:

Inventory by Region



Financial Resources

Land and property development are capital-intensive activities. We require access to sufficient capital to continue to grow, develop new land and commercial property, and participate in acquisition opportunities that fit our growth strategy.

We have developed strong relationships with our major lenders, which, combined with our capital structure and liquidity, provide the company access to financing on attractive terms in spite of fluctuating credit markets and ongoing changes in the economic environment.

We primarily use fixed rate, long-term mortgage financing on our income-producing assets to raise capital for acquisitions, development activities, and other business expenditures. As such, most of our borrowings are in the form of long-term, property specific financings such as mortgages or project financing secured by specific assets. At the end of 2022, Melcor had project specific financing on two residential and two commercial projects totaling $22.60 million. Melcor looks to shift project debt to fixed term financing to secure mortgage interest rates by locking in terms. In 2022, we converted $20.71 million in project debt at our Jensen Lakes development into a fixed term mortgage of $24.00 million.

Our operations are supported by a syndicated operating line of credit with total availability of $196.35 million, which margins our land development assets (raw land inventory, land under development and agreements receivable). Melcor continues to remain focussed on collecting receivables and reducing overall leverage which provides the opportunity to participate in acquisition and growth opportunities as they arise.

For additional information on our financial resources, please refer to the Financing and Liquidity & Capital Resources sections.

Corporate Sustainability

We are committed to corporate sustainability - in environmental practice, social responsibility, governance (ESG) of our company and as stewards of the areas where we operate. Attaining best practice in all aspects of our business is our constant aspiration. Our history and our culture form our strong foundation: the authentic values of a family-run organization, building deep relationships with our clients, our business partners and our employees.

Here are the steps the we are taking to prepare for anticipated ESG reporting requirements:

- we are assessing the material ESG risks and opportunities that apply to Melcor and determining how we will benchmark, measure and report on these topics as requirements are adopted.
- we are broadening our initial building inventory/benchmarking beyond Edmonton. Our Edmonton office building climate inventory was completed in 2022 in conjunction with our involvement with Edmonton's Corporate Climate Leaders program and we are currently determining our reduction targets on the inventoried buildings and extending our benchmarking to buildings beyond Edmonton.
- we are establishing baseline data on Social and Governance topics.

The following sections detail our current practices and achievements with respect to ESG.

Environmental Commitment

Land Development

We consider the impact of land development on the natural environment. Our goal is to create a habitat where people, plants, birds and wildlife can flourish together. Here are a few examples of our practices and some notable developments. We use:

- low impact development techniques to reduce and absorb runoff (smaller driveways, more green space)
- unique naturalized storm water management ponds that mimic the natural environment. Now well-established in several communities, these ponds re-create a natural environment that attracts a variety of wildlife
- natural raw land features to inform the design of the community

- mature trees and native species in landscaping and require individual home purchasers to do the same to not only beautify the community, but to increase natural absorption of rain water and snow melt
- plentiful community gathering spaces - parks, playgrounds, community gardens and orchards

In addition, Melcor is a partner of Edmonton Area Land Trust, committed to preserving natural treasures like the Larch Sanctuary (Edmonton, AB).

Melcor designed and developed the environmentally intelligent subdivision of Larch Park, which featured LED street-lighting before it was commonplace, narrower roads, bio-swales, soil preservation and a construction waste management program. Larch Park amenities include a community garden, an orchard, trails with plaques about local wildlife and plant species throughout and a naturalized storm pond. The homes meet BuiltGreen Gold, LEED for Homes Gold or R2000 with a minimum Energuide rating of 80. It borders the Larch Sanctuary, a protected natural area reserve.

Property Development
We focus on efficient buildings in our commercial property development. Knowing that we are going to manage for the long-term, we strive to construct buildings that are as energy efficient as possible. Our neighbourhood shopping centres use xeriscaping, which is landscaping designed to reduce or eliminate the need for supplemental water by using native plants and trees.

The majority of our current development projects are neighbourhood shopping centres built for the convenience of our communities. With a quick walk, you can satisfy all your basic needs.

Property Management
Our property management practices are designed to improve operating efficiency and reduce cost while at the same time increasing client satisfaction and thus retention rates. Our capital spending strategy focuses on equipment upgrades and maintenance initiatives that will reduce energy consumption in our properties.

Examples of our commitment to environmental best practices include:

- All properties have LED lights
- 80% of our buildings have motion-sensing lights that turn off when no one is present
- Active recycling programs in all office buildings

We engage specialists to monitor and analyze our energy usage and identify potential improvements. Of 12 office properties benchmarked from 2012 - 2022 (Edmonton, AB) we achieved:

- a 20% reduction in electricity consumption, or CO_2 equivalent of 8,900 tonnes
- a 7% reduction in natural gas consumption, or CO_2 equivalent of 370 tonnes
- a 45% reduction in emission intensity, or CO_2 equivalent of 12,400 tonnes, a decrease of almost 2,000 tonnes over 2021

Recreational Properties
We clear walking trails and cross country ski tracks through our golf courses to make them a year-round attraction and a benefit to the surrounding neighbourhoods. Nearby residents appreciate the practice.

Social Responsibility
Melcor has been built on relationships since 1923. Treating others with respect has always been a core value. We cultivate and greatly value our relationships with employees, tenants, clients, contractors, shareholders and the communities where we operate.

Our goal is to build places where people want to live, work, shop and play. That means amenities that help to build a sense of community for neighbourhood residents and neighbourhood shopping centres with public space for gathering.

We demonstrate social responsibility through our relationships with all stakeholders and the communities where we operate. Our commitment to customer care and solid relationships with our tenants is paramount to our property management strategy.

Diversity & Inclusion
We are committed to fostering a diverse, inclusive and safe work environment. Our people are at the heart of our strategy and one of three core values is to "empower and care for our exceptional team."

Women make up 56% of Melcor's management committee, 39% of management and 48% of our overall team. Visible minorities make up 18% of our workforce.

Melcor emphasizes health and wellness, including mental health. In 2019, we doubled the benefit available for psychological services to support the mental well-being of staff. In 2021, managers participated in The Working Mind, management training for recognizing and managing mental health challenges in the workplace. Encouraging managers to check in on the mental and emotional well-being of staff has been a priority.

The focus on a positive, empowering work environment creates an engaged and dedicated workforce with 23 employees having served the company for 25+ years. The average tenure of our employees is 9.80 years.

Community Investment: Supporting Local

Being invested in the communities where we do business is an important part of who we are. As we pursue excellence in our business, we also want the communities where we do business to be the best they can be. We give where we live to build strong communities. Our giving and involvement focuses on key pillars of strong communities: education, health, youth, sports, public gathering places such as libraries, and social programs that lend a helping hand to those in need. Our employees also make meaningful contributions to local charities through fundraising activities and by volunteering their time and talent with local not-for-profit organizations.

This commitment goes beyond financial and volunteer support. We take pride in the way our properties look. Entrances to office buildings have seasonal floral arrangements, beautifying the street. We have public art installations (both temporary and fixed) in, on and around a number of our properties.

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

Effective Governance

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

Melcor's Management Committee, which reviews and approves the projects we undertake, is 56% female.

Examples of our commitment to effective corporate governance practices include:

- a board of directors comprised of a majority of independent directors
- as the chair is related to the company, we have appointed a lead director
- 38% of directors are female; 40% of independent directors
- 50% of our executive team is female

Glossary of Acronyms

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

2022 Highlights

Readers are reminded that established key performance measures may not have standardized meaning under GAAP. For further information on Melcor's non-standard measures, non-GAAP measures, operating measures and non-GAAP ratios, refer to the non-GAAP and non-standard measures section on page 40.

($000s except as noted)	2022	2021	Change
Revenue	**241,747**	315,628	(23.4)%
Gross margin (%)[3]	**48.9 %**	44.4 %	10.1 %
Fair value adjustment on investment properties	**21,554**	19,370	11.3 %
Net income	**89,354**	56,311	58.7 %
Net margin (%)[3]	**37.0 %**	17.8 %	107.9 %
Funds from operations[1]	**60,859**	81,327	(25.2)%
Shareholders' equity	**1,178,336**	1,116,469	5.5 %
Total assets	**2,167,050**	2,113,927	2.5 %
Per Share Data ($)			
Basic earnings	**2.75**	1.70	61.8 %
Diluted earnings	**2.74**	1.70	61.2 %
Funds from operations[2]	**1.88**	2.46	(23.6)%
Book value[2]	**37.71**	33.87	11.3 %
Dividends	**0.58**	0.44	31.8 %

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.
(2) Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.
(3) Supplementary financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.

Consolidated revenue for 2022 was $241.75 million down 23% from the record revenue set in 2021. Gross margin was up at 49% due to higher contributions from our higher margin Income Property segment. Net income was up 59% to $89.35 million and FFO was down 25.2% to $60.86 million. Although FFO was down, we also generated additional cash through the sale of US residential units for proceeds of $35.00 million, not reflected in FFO. This represents a gain of $23.06 million, however as Investment Properties are carried at fair value, the increase would have been captured in fair value adjustments in the current and comparative periods.

The significant factor in comparing our revenue to the prior year is the lack of US Community Development sales in 2022. In 2021, this region sold 280 lots and 155 acres (595 paper lots) for revenue of $54.89 million and earnings of $21.18 million. In the current year, no lots or acres were sold. Land sales in the US differ from Canadian as we often sell the lots in bulk agreements leading to dramatic swings in sales period over period. New home sales in our Canadian regions remain strong, resulting in 1,060 single-family lots being sold compared to 1,261 lots in 2021.

Property Development revenue is primarily derived from internal transfers to our Investment Properties division. In 2022, the value of transfers was $13.63 million (eliminated on consolidation). Transfers added 36,846 sf (5 retail buildings) to our portfolio of income-generating properties. Margins on transfers was 17%, up compared to 2021.

Investment Properties revenue was up 10% due to GLA growth (transfers from the Property Development division) and improved occupancy. As mentioned above, the division also sold 117 residential units in Phoenix, Arizona for $35.00 million (US$26.15 million) net of transaction costs. These sales are not included in revenue however the value of the assets increased over time through both exchange rates changes and market improvements, contributing to a total realized gain on sale of $23.06 million. As the properties were unencumbered at the time of sale, they contributed $35.00 million cash to proceeds from investing activities. Subsequent to year end, $24.01 million (US$18.00 million) was repatriated and used to pay down our line of credit.

Revenue in the Recreational Properties division was up 5% with slightly lower revenue from green fees due to weather conditions during the golf season offset by an increase in food and beverage revenues over 2021.

The US contributed 7% of total revenue or $15.83 million in the year, all from Investment Properties. This compares to 2021 revenue of $70.38 million (22% of total revenue). As noted above, the large swing in US revenue was due to timing of sales in our US Community Development.

Throughout the year, we maintained our conservative and disciplined approach to investment and development activities and the management of our assets and liabilities.

Investing for growth

We purchased 13.01 acres adjacent to other holdings in Buckeye, Arizona in the year. This land is immediately developable and fits our strategy of purchasing land to rezone in the US. While we may participate in strategic land purchase opportunities such as this, our primary focus is on harvesting our current inventory of 9,857 acres.

Our Property Development division completed and transferred 5 retail buildings (36,846 sf) to Investment Properties in 2022 with a further 61,850 sf under development. Transfer revenue is eliminated on consolidation. These new buildings will positively impact results in future years as we continue to grow our income-generating assets for long-term holding or for sale to the REIT. We continued to progress commercial land through the development, approvals and lease-up process and have an additional 6 buildings in 4 projects expected to be completed and transferred to Investment Properties in 2023.

Asset Dispositions

During the year, we sold 117 residential units in Arizona for $35.00 million (US$26.15 million) net of transaction costs.

We also entered into an unconditional agreement to sell a REIT-owned investment property for gross proceeds of $19.50 million ($19.03 million net of transaction costs). This asset was reclassified as asset held for sale at year end and was subsequently sold on February 1, 2023.

Return to Shareholders

We continued to return value to our shareholders and unitholders:

Melcor Developments:

We increased dividends paid to shareholders by 31.8% to $0.58 per share (2021 - $0.44 per share).

On March 16, 2023 we declared a quarterly dividend of $0.16 per share, payable on March 31, 2023 to shareholders of record on March 24, 2023. The dividend is an eligible dividend for Canadian tax purposes.

We have been paying dividends since 1969.

On December 22, 2022, Melcor filled the current NCIB by purchasing the final shares bringing the total purchased 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.

Melcor REIT:

The REIT distributed $0.48 per unit to unitholders in 2022 compared to $0.45 per unit in 2021. Subsequent to the year, the REIT declared distributions of $0.04 per unit for January, February and March 2023.

The REIT has been paying distributions since inception in 2013.

Revenue & Margins

Revenue was down 23% to $241.75 million in 2022, compared to 2021 driven by the reduction in Community Development US sales over 2021. In 2021 this region sold 280 lots and 155 acres (595 paper lots) for revenue of $54.89 million and earnings of $21.18 million. In the current year, no lots or acres were sold in the US. US land sales differ from Canadian as we often sell the lots in bulk agreements leading to dramatic swings in sales period over period. During the year we sold 1,060 single-family lots in Canada compared to 1,261 in 2021.

Our average lot price on single-family lots increased 6%, from $0.14 million in 2021 to $0.15 million in 2022. Average selling price can vary significantly period over period depending on the type of inventory sold. Melcor strives to provide diversified lot options to our builders, which range from lakefront estates lots to townhouse/duplex products.

Revenue from our Income Properties (including REIT and Investment Properties divisions) was up 4% over 2021. Investment Properties revenue increased by 10% due to new properties completed and transferred from our Property Development division which increases the divisions rentable GLA and overall revenue base. Our REIT properties continue to provide stable returns, and remained flat over 2021.

Gross margin percent and net margin percent are supplementary financial measures of performance. Please refer to the Non-GAAP and Non-Standard Measures section on page 40 for more information. Gross margin was 49% in 2022 compared to 44% in the prior year. Our income-producing portfolio (including REIT properties), consistently provides higher gross margins than our other operating divisions. In both 2022 and 2021 margin in these divisions was 59%. In 2022, 43% of total revenue was from these divisions, up from 31% in 2021. This impacts our consolidated margins and was the largest factor in the increase in overall margins realized in the year.

Gross margin earned in our Community Development division remained strong at 39% compared to 37% in the prior year. Overall gross profit contributed by the division however was down 30% as a result of reduced sales in the US region. Margin in this division is affected by a number of factors, including types of lots, development costs, the timing of the original land purchase and the relative real-estate market strength at the time of sale. Land that has been in inventory for many years typically generates higher margin on sale. Gross margin on income properties is more stable by nature and serves to neutralize volatility in Community Development margin.

Net margin increased to 37% from 18% in 2021. Net margin is impacted by swings in fair value adjustments recorded on our investment properties, REIT units and the conversion feature on our convertible debenture. Net income was $89.35 million, up from $56.31 million in 2021, largely as a result of fair value gains of $21.55 million recorded on our investment properties. Adjustments related to the REIT units had a positive impact of $10.14 million in 2022 compared to a negative impact of $31.53 million in 2021 . These adjustments are primarily driven by market forces outside of Melcor's control. Management believes that FFO (discussion follows) is a more accurate reflection of our true operating performance.

Fair value gains of $21.55 million were recorded in 2022 compared to fair value gains of $19.37 million in 2021.

Funds From Operations (FFO)

Funds From Operations (FFO) is a non-GAAP measure used in the real estate industry to measure operating performance. Refer to the Non-GAAP Measures section starting on page 40. We believe that FFO is an important measure of the performance of our real estate assets. FFO per share adjusts for certain non-cash items included in income such as fair value adjustments on investment properties and REIT units.

Below is a reconciliation of net income to FFO:

($000s)	Year Ended	
	December 31, 2022	December 31, 2021
Net income for the year	**89,354**	56,311
Amortization of operating lease incentives	**7,561**	8,160
Fair value adjustment on investment properties	**(21,554)**	(19,370)
Depreciation on property and equipment	**1,350**	1,334
Stock based compensation expense	**841**	1,132
Non-cash financing (costs) recoveries	**(8,518)**	3,479
Gain on sale of asset	**(40)**	(151)
Deferred income taxes	**8,225**	4,684
Fair value adjustment on REIT units	**(16,360)**	25,748
FFO(1)	**60,859**	81,327
Per Share Data		
FFO per share(2)	**1.88**	2.46

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.
(2) Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.

FFO decreased $20.47 million or 25% to $60.86 million from $81.33 million in 2021. This decrease was primarily due to overall decreased gross profit, which was down $21.86 million or 16% in 2022.

As noted in the Revenue & Margins section on page 13 margins were down in the year as our US Community Development region had no sales in 2022 compared to sales in 2021 of 280 lots and 155 acres (595 paper lots) which in 2021 generated revenue of $54.89 million and earnings of $21.18 million. In 2022 we developed 234 single-family lots in the US which are projected to be sold in 2023. US lot sales have proven to provide more lumpy results as sales are often more bulk in nature and occur in a single quarter. The US market furthermore saw a more immediate economic reaction to rising interest rates in comparison to our Canadian markets.

FFO was also down due to higher G&A and interest costs. G&A increased by $1.09 million or 5.0% in the year. Interest cost increases in the year were the result of rising interest rates and overall higher debt levels.

Finance costs in the year were significantly impacted by swings in non-cash financing costs, which includes revaluation adjustments on our interest rate swaps and the conversion feature on our convertible debenture. These amounts are adjusted out of FFO in the non-cash financing costs line item above and therefore do not impact FFO.

Our Income Properties (excluding fair value adjustments) remain a steady source of FFO and help to stabilize overall income. Our Recreational Properties have also been a stable contributor to our FFO and gross profit.

Although not reflected in FFO, we also sold 117 residential units in the US (classified as Investment Properties), generating realized gains of $23.06 million and bringing in cash of $35.00 million.

Divisional Results

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

- Community Development, which acquires raw land for future commercial and residential community development;
- Property Development, which develops high-quality retail, office, industrial and multi-family residential revenue-producing properties on serviced commercial sites developed by Community Development or purchased from third parties;
- Investment Properties, which manages and leases the commercial properties developed by the Property Development division and an externally purchased portfolio of assets, as well as assets held in the REIT;
- The REIT, which owned and holds 39 income-producing properties; and
- Recreational Properties, which owns and operates championship golf courses associated with Melcor residential communities.

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

The following table summarizes operating division results before intersegment eliminations and excludes the corporate division. Given the significant impact the consolidation of the REIT has on Melcor's consolidated statement of financial position, the assets and liabilities of the REIT have been presented separately from the rest of consolidated entity in Note 26.

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Year ended December 31		Year ended December 31		Year ended December 31		Year ended December 31		Year ended December 31	
($000s except as noted)	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Revenue	**135,777**	202,754	**14,013**	42,929	**43,010**	38,931	**74,105**	74,094	**10,453**	9,989
Portion of total revenue[1]	**48%**	54%	**5%**	12%	**16%**	11%	**27%**	20%	**4%**	3%
Cost of sales	**(83,054)**	(127,058)	**(13,633)**	(42,800)	**(17,445)**	(16,296)	**(31,060)**	(30,340)	**(6,126)**	(5,741)
Gross profit	**52,723**	75,696	**380**	129	**25,565**	22,635	**43,045**	43,754	**4,327**	4,248
Gross margin (%) [1]	**39%**	37%	**3%**	–%	**59%**	58%	**58%**	59%	**41%**	43%
Portion of total gross profit[1]	**42%**	52%	**–%**	–%	**20%**	15%	**34%**	30%	**3%**	3%
General and administrative expense	**(7,848)**	(6,902)	**(2,071)**	(1,947)	**(3,162)**	(2,409)	**(3,358)**	(2,953)	**(2,716)**	(2,610)
Fair value adjustment on investment properties	**–**	–	**3,142**	2,352	**25,663**	10,850	**(11,995)**	2,879	**–**	–
Gain on sale of assets	**–**	–	**–**	–	**–**	–	**–**	–	**40**	151
Interest income	**1,406**	516	**4**	–	**31**	1	**31**	30	**6**	–
Segment Earnings	**46,281**	69,310	**1,455**	534	**48,097**	31,077	**27,723**	43,710	**1,657**	1,789

(1) Supplementary financial measure. Refer to Non-GAAP and Non-Standard Measures section on page 40 for further details.

Community Development

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

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

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

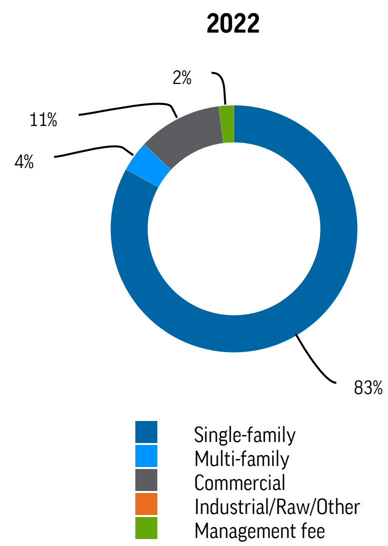
As at December 31, 2022 we held 9,857 acres of land for future development and developed inventory of 714 single-family lots in Canada, 235 single-family lots in the US, 58 acres ready for multi-family development, and 128 acres for commercial and industrial development.

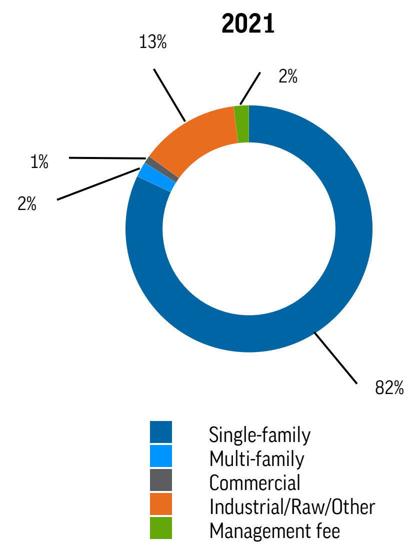
Sales Activity

Income can fluctuate significantly from quarter to quarter due to the timing of plan registrations, the cyclical nature of real estate markets and the mix of land sold. The seasonality caused by the timing of plan registrations and the real estate construction cycle typically evens out over the course of the year.

We brought on 29 new phases in 19 communities to replenish inventory in 2022. We also continued to clear out existing inventory held by Melcor (lots) and by our builders (spec homes) and have active marketing programs in place to support this objective.

REVENUE BY TYPE





The following table summarizes our activity:

Consolidated	2022	2021
Canada Sales data: (including joint operations at 100%)		
Single-family sales (number of lots)	**1,060**	1,261
Gross average revenue per single family lot ($)	**153,934**	144,883
Multi-family sales (acres)	**13.07**	2.59
Gross average revenue per multi-family acre ($)	**802,357**	1,359,073
Commercial sales (acres)	**13.38**	4.95
Gross average revenue per commercial land acre ($)	**1,093,848**	540,141
Other land sales - Industrial, Other (acres)	**0.95**	1.29
Gross average revenue per other land acre ($)	**452,632**	325,581
Raw land sales to municipalities (acres)	**1.49**	51.04
Gross average revenue per raw land acre ($)	**107,113**	56,176
US Sales data: (including joint operations at 100%)		
Single-family sales (number of lots)	**—**	280
Gross average revenue per single family lot ($)	**—**	102.424
Other land sales - raw (paper lots), other	**—**	595
Gross average revenue per paper lot ($)	**—**	46,382
Financial results: (including joint operations at Melcor's interest)		
Revenue ($000s)	**135,777**	202,754
Earnings ($000s)	**46,281**	69,310

Regional Highlights

Edmonton & Region	2022	2021
Sales data:		
Single-family sales (number of lots)	**616**	799
Multi-family sales (acres)	**7.77**	–
Other land sales - Industrial & Other (acres)	**0.95**	1.29
Raw land sales to municipalities (acres)	**0.64**	8.46
Financial results:		
Revenue ($000s)	**59,239**	77,980
Earnings ($000s)	**21,247**	23,098

Our Edmonton region had a strong year with sales of 616 lots and 9.36 acres; however we sold 23% fewer lots compared to the record breaking sales pace of 2021. The Edmonton region brought on 15 new phases in 9 communities including some highly anticipated estate lots in Jensen Lakes. We continue to see interest and activity in all neighbourhoods.

We offer a variety of price-sensitive options in all neighbourhoods, including duplexes, townhomes, detached garage homes, homes with secondary or garage suites and zero lot-line homes. We also offer estate lots in some neighbourhoods. Demand remains for lots at all price points.

Red Deer & Region	2022	2021
Sales data:		
Single-family (number of lots)	**63**	117
Commercial sales (acres)	**1.91**	3.45
Raw land sales to government bodies	**–**	6.42
Financial results:		
Revenue ($000s)	**6,096**	11,520
Earnings ($000s)	**2,298**	4,651

The region developed 83 new lots in 2022, and sold 63. Given that Red Deer is a smaller market, lot sales can fluctuate year to year depending on the level of development activity. Melcor continues to dominate market share in the region with 41% of all multi-family and single-family lots permitted in 2022.

Calgary & Region	2022	2021
Sales data:		
Single-family sales (number of lots)	**315**	256
Commercial sales (acres)	**11.47**	1.50
Financial results:		
Revenue ($000s)	**49,409**	25,662
Earnings ($000s)	**15,109**	7,410

With a new community launched in 2022 (Cobblestone Creek - Airdrie, AB) and active development in all communities in the Calgary region, single-family lot sales increased by 23%. We also sold 11.47 acres of commercial land to our Property Development division for $13.69 million for the ongoing development of Greenwich in west Calgary. Revenue and costs related to intra-company sales are eliminated on consolidation and margin is classified as a fair value gain due to the change in land use.

We anticipate an active year in 2023 with development ramping up in our new community of Cobblestone Creek (Airdrie, AB), and new phases of Sunset Ridge (Cochrane, AB) and Lanark Landing (Airdrie, AB) being brought on. We expect to introduce two new communities in the region in 2023 adding further momentum.

Lethbridge	2022	2021
Sales data:		
Single-family sales (number of lots)	**34**	14
Multi-family sales (acres)	**5.30**	–
Financial results:		
Revenue ($000s)	**6,138**	1,453
Earnings ($000s)	**2,070**	143

With a new phase brought on in one community (Garry Station), single-family lot sales were up significantly to 34 from 14 in 2021. We also sold 5.30 acres for a multi-family development in Legacy Ridge, which contributed revenue of $2.23 million in 2022. Lethbridge is one of our smaller markets and therefore lot sales can fluctuate significantly from period to period depending on the stage of development in various communities.

Kelowna	2022	2021
Sales data:		
Single-family sales (number of lots)	**32**	75
Multi-family sales (acres)	**–**	2.59
Raw land sales to municipalities (acres)	**–**	1.57
Financial results:		
Revenue ($000s)	**13,898**	29,802
Earnings (loss) ($000s)	**4,244**	8,614

As anticipated, sales in Kelowna were down compared to 2021 as no additional phases were developed at North Clifton Estates, our Okanagan lake front community which sold out in 2021. We are beginning to plan future phases, but do not project sales in 2023.

All sales in 2022 were from the Black Mountain community. We expect to develop another small phase in this community in 2023.

United States	2022	2021
Sales data:		
Single-family sales (number of lots)	**–**	280
Other land sales - Industrial & Other (acres)	**–**	155
Financial results:		
Revenue ($000s)	**977**	54,886
Earnings ($000s)	**1,319**	21,176

The US Community Development model differs from Canadian markets. Builders in our Harmony community buy lots in bulk, causing sales to be lumpy and vary significantly year over year. Further compounding this lumpiness, sales of paper lots are also a bulk purchase in one particular period.

We did not sell any lots or paper lots in the US in 2022; however, we did develop an additional 234 lots which we hope to sell in 2023.

We continue to actively market and work on municipal approvals for all of our land assets in the US. We intend to sell many of these projects as paper lots, which means we do not plan to develop ourselves. We continue to seek land acquisition opportunities and purchased 13.01 acres adjacent to our existing holdings in Buckeye, AZ for $4.25 million (US $3.30 million).

Property Development

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

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

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

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

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

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

Division Highlights

($000s and at JV%, except as noted)	2022	2021
Total revenue	**14,013**	42,929
Revenue from property transfers	**13,633**	42,800
Management fees	**380**	129
Margin (%) on property transfers	**17 %**	1 %
Square footage transferred (sf, at 100%)	**36,846**	118,734
Number of buildings transferred	**5**	9
Fair value gains on investment properties	**3,142**	2,352

Property Development completed and transferred 5 buildings (36,846 sf) to Investment Properties in 2022. A further 61,850 sf remains under development and we continue to move new projects through the planning and development approval process. We plan for another active construction season in 2023 and anticipate commencing construction on an additional 24,427 sf.

Regional Highlights

A breakdown of our fair value gains by region is as follows:

($000s)	2022	2021
Northern Alberta	**1,767**	2,266
Southern Alberta	**1,375**	86
	3,142	2,352

Northern Alberta completed and transferred 24,186 sf (4 buildings) to Investment Properties:

- Jensen Lakes Crossing (St. Albert): a CRU (7,049 sf) for fair value gains of $0.22 million
- Woodbend Market (Leduc): a CRU (10,748 sf) for fair value gains of $0.55 million
- Clearview Market (Red Deer): a single tenant Starbucks building (1,832 sf) for fair value gains of $0.07 million
- Clearview Market (Red Deer): a single tenant BMO building (4,557 sf) for fair value gains of $0.23

Southern Alberta completed and transferred 12,660 sf (1 buildings) to Investment Properties:

- Chestermere Station (Calgary): a CRU (12,660 sf) for fair value gains of $0.22

Transfers occur upon completion of the buildings, while the fair value gains are recorded over the course of construction. In 2021, we adjusted the fair value of buildings transferred in prior years, which impacted divisional fair value gains in the comparable period.

Future development opportunities

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

The following table is a summary of current and future development projects:

Current Projects					
Project	Location	Type	Total SF [1]	Developed and transferred to IP or sold [2]	SF under development or developed and awaiting lease up
The Village at Blackmud Creek	South Edmonton	*Regional business park*	550,000	198,910	–
Telford Industrial	Leduc	*Industrial Park*	500,000	143,200	–
West Henday Promenade	West Edmonton	*Regional mixed use centre*	515,000	116,300	–
Kingsview Market	Airdrie	*Regional shopping centre*	319,000	200,600	–
Chestermere Station	Chestermere	*Neighbourhood shopping centre*	264,260	254,260	–
Clearview Market 2	Red Deer	*Neighbourhood shopping centre*	80,000	27,200	–
The District at North Deerfoot	North Calgary	*Regional business / industrial park*	1,285,000	586,600	–
Campsite Industrial	Spruce Grove	*Industrial Park*	170,000	23,700	–
Jensen Lakes Crossing	St. Albert	*Neighbourhood shopping centre*	150,000	106,350	–
Woodbend Market	Leduc	*Neighbourhood shopping centre*	140,000	10,750	27,260
Greenwich	West Calgary	*Regional mixed use centre*	325,000	62,600	34,590
Vista Ridge	Sylvan Lake	*Neighbourhood shopping centre*	20,000	5,200	–

Expected Future Projects					
Project	Location	Type	Total SF [1]	Ownership Interest	Expected Start (year)
Bower	Red Deer	*Neighbourhood shopping centre*	85,000	100%	2025
Secord	Edmonton	*Neighbourhood shopping centre*	85,000	60%	2024
Keystone Common	North Calgary	*Regional power centre*	500,000	100%	2025+
Mattson	Edmonton	*Neighbourhood shopping centre*	78,000	50%	2025
Rollyview	Leduc	*Neighbourhood shopping centre*	75,000	100%	2026+
The Shoppes at Canyons	Lethbridge	*Neighbourhood shopping centre*	105,000	100%	2026+
West Pointe Marketplace	Lethbridge	*Regional power centre*	750,000	100%	2026+
Westview Commercial	West Calgary	*Neighbourhood shopping centre*	150,000	100%	2026+
Sora	South Calgary	*Neighbourhood shopping centre*	60,000	50%	2026+

(1) Total SF represents the estimated total square footage remaining to be developed in the project. This includes sites that may be individually sold to retailers or end users. For example, grocers usually buy land from Melcor and build/own their building. Total SF is periodically recalibrated based on current market conditions and changes to development plans.
(2) Developed and transferred to IP or sold includes estimated sf of sites sold to retailers for development as described above.

Investment Properties

Our Investment Properties division manages and leases our portfolio of high-quality office, retail, industrial and residential properties, which are located across western Canada and the US, including the properties owned by the REIT. Currently our Investment Properties division manages 4.80 million sf of income-producing commercial GLA and 476 residential units.

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

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

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

Operating Results

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

($000s except as noted)	2022	2021
Commercial properties GLA under management (sf, total)	**4,804,248**	4,753,285
Properties owned and managed (sf)	**1,135,418**	1,101,292
Properties managed (sf)	**3,668,830**	3,651,993
Residential units managed	**476**	593
Occupancy - CAD	**89.3 %**	76.1 %
Occupancy - US	**82.6 %**	75.4 %
WABR (per sf) - CAD	**$ 27.02**	$ 26.59
WABR (per sf) - US	**$ 20.32**	$ 20.67

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

($000s except as noted)	2022	2021
Revenue (total)	**43,010**	38,931
Canadian properties	**21,985**	17,333
US properties	**14,848**	15,494
Management fees	**5,418**	5,617
Parking lots and other assets	**759**	487
NOI (1)	**24,948**	23,296
FFO (1)	**24,054**	21,851
FFO per share (2)	**$ 0.73**	$ 0.66

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.
(2) Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.

Since the formation of the REIT in 2013, the Investment Properties division's primary function is asset management and hands on property management.

Canadian properties

Our Canadian property portfolio continues to grow via completions and transfers from Property Development. In 2022, Property Development completed construction and leasing and transferred five buildings (36,846 sf) compared to nine buildings (118,734 sf) in 2021. New properties transferred in the current and comparative periods added $2.64 million to NOI in 2022 (2021 - $0.80 million) as detailed in the table below. With 61,850 sf of GLA under active development in the Property Development division, we expect our Canadian property portfolio to continue to grow.

Occupancy on properties owned by Investment Properties was 89% at December 31, 2022 (2021 - 76%). Committed occupancy is 90% (2021 - 88%). Weighted average base rent was up $0.43 to $27.02.

Net operating income (NOI) and same asset NOI are non-standard metrics used in the real estate industry to measure the performance of investment properties. The IFRS measurement most directly comparable to NOI and same asset NOI is segment earnings.

The following is a reconciliation of Canadian properties same asset net operating income (NOI) to gross profit:

($000s except as noted)	2022	2021
Same asset NOI (1)	**11,169**	10,074
Properties transferred from PD	**2,642**	801
NOI(1)	**13,811**	10,875
Amortization of operating lease incentives	**(691)**	(651)
Straight-line rent adjustment	**1,962**	1,308
Gross profit	**15,082**	11,532

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.

Gross profit was $15.08 million, up 31% from 2021 as a result of properties transferred from the Property Development Division over the past 12 months and higher occupancy overall.

Same asset NOI was up 11% to $11.17 million due to improved occupancy on assets held throughout the current and comparative periods.

US properties

Two events had a significant impact on our US properties results. We define the terms and refer to them in the following discussion:

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

Dispositions: Throughout 2022, we sold a total of 117 residential units in Phoenix, Arizona for net sale price of $35.00 million (US$26.15 million) net of transaction costs. This includes the sale of all 113 units at the Dakotas at Camelback. The acquisition cost of these units was $11.94 million resulting in realized gains of $23.06 million. This gain is captured in the fair value adjustments in the current and comparative periods.

In 2021, we sold 11 residential units for $7.42 million (US$5.96 million). These dispositions are adjusted for in the same asset NOI calculations below.

Our Dispositions noted above significantly impacted results on our US properties. Revenue on US properties was $14.85 million compared to $15.49 million in 2021 and NOI was $4.79 million compared to $6.72 million in 2021. On a same asset basis, NOI was down $1.70 million as a result of the IP Early Termination event which added $1.94 million to our 2021 revenue and NOI. Excluding the IP Early Termination event, same-asset NOI was up $0.22 million over 2021.

As at December 31, 2022 occupancy was 83% up 7% from 2021 and WABR was $20.32 per sf down 2% from 2021. Residential occupancy was 88% at year end (2021 - 100%).

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

($000s except as noted)	2022	2021
Same asset NOI [(1)]	**4,187**	5,890
Third party disposals	**606**	825
NOI [(1)]	**4,793**	6,715
Foreign currency translation	**1,415**	1,705
Amortization of operating lease incentives	**(925)**	(972)
Straight-line rent adjustment	**274**	(346)
Gross profit	**5,557**	7,102

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.

Management fees & other

We earn management fees under the asset management and property management agreements with the REIT and under other joint venture agreements where Melcor acts as the asset manager. The leasing fee agreement between Melcor and Melcor REIT was amended effective January 1, 2022, which reduced lease fees paid from the REIT to Melcor. These amounts are eliminated on consolidation.

Revenue from parking stalls and other assets was up 56% to $0.76 million as a result of the re-population of downtown offices post-pandemic. These revenues are ancillary to our business and tend to fluctuate from period to period.

FFO

FFO was up 10% over 2021 as our Investment Properties portfolio continues to grow as properties are completed and transferred from Property Development. Investment Properties remain a steady source of FFO and serve to produce consistent and stable results for Melcor.

Fair Value of Investment Portfolio

The fair value of our portfolio increased by $16.90 million over 2021. The components leading to the change in fair value include:

- the sale of residential units for $35.00 million (US$26.15 million), reducing fair value.
- transfers from Property Development of $13.63 million, increasing fair value.
- property improvements valued at $6.10 million.
- fair value gains of $25.66 million, foreign currency translation gains of $7.28 million, and changes to tenant improvements and straight line rent.

Investment properties were valued by Melcor's internal valuation team as at December 31, 2022. Our qualified external valuation professionals valued 20 of the 28 legal phases with a fair value of $228.12 million This resulted in fair value gains of $25.66 million recorded as fair value adjustments on investment properties in the statements of income and comprehensive income. In 2021 our qualified external valuation professionals valued 19 of the 29 legal phases with a fair value of $186.29 million which resulted in a fair value gain of $10.85 million for the year.

A breakdown of our fair value adjustment on investment properties by geographic region and significant asset type is as follows:

($000s)	2022	2021
Alberta - all assets	**(6,491)**	4,323
US - residential	**34,207**	204
US - commercial	**(2,053)**	6,323
	25,663	10,850

Our US residential properties saw significant changes in value in the year. These gains include a fair value bump on units sold during the year, and those valued as part of our regular valuation program. Losses on our Alberta assets were primarily due to an increase in capitalization rates on several properties correlated to increased interest rates. Refer to note 30 to the consolidated financial statements for additional information on the calculation of fair value adjustments.

REIT

The REIT owned 39 income-producing office, retail and industrial properties, representing 3,216,141 sf in GLA and a land lease community at December 31, 2022. The REIT's portfolio has a diversified tenant profile, with a mix of national, regional and local tenants operating in a variety of industries.

We held a controlling 55.4% effective interest in the REIT through ownership of all Class B LP Units at December 31, 2022 (December 31, 2021 - 55.4%). As we have concluded that Melcor retains control of the REIT, we consolidate 100% of the REIT's revenues, expenses, assets and liabilities. Note 26 to the Financial Statements provides a breakout of the assets and liabilities of the REIT as supplemental information to assist readers in understanding Melcor's financial position..

Operating results

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

($000s except as noted)	2022	2021
Rental revenue	**74,105**	74,094
Net operating income (NOI) (1)	**46,319**	47,764
Same asset NOI *(see calculation following)* (1)	**45,523**	46,858
Fair value adjustments	**(11,995)**	2,879
Occupancy	**88 %**	87 %
Funds from operations (1)	**43,443**	45,049
Funds from operations per unit (2)	**$ 1.39**	$ 1.37

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.
(2) Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.

Rental revenue was flat over 2021. Higher revenue from recoveries and straight-line rent adjustments offset a decrease in other revenue and swings in amortization of tenant incentives. 2021 other revenue includes $1.00 million in lease break fees (Early Termination event). Excluding the one-time payment, rental revenue was up 1%.

In 2022 we completed 368,296 sf of lease renewals (including holdovers) and had 133,901 sf in new leases commence, increasing occupancy slightly to 88.1%. We continue to see activity and opportunity across our portfolio in all asset classes and achieved a healthy retention rate of 86.1%.

Recoveries are amounts recovered from tenants for direct operating expenses incurred and include a nominal administrative charge. We typically expect recovery revenue to correlate with changes in recoverable operating expenses. Compared to 2021, both recovery revenue and direct operating expenses increased 2%. Our recovery ratio (recoveries divided by direct operating expenses) remained steady compared to 2021 at 86.3%.

Other revenue includes parking revenue and other miscellaneous revenue that is ancillary to our business and fluctuates from period to period. The Early Termination event ($1.00 million in Q1-2021) skews the comparative results. Excluding this, other revenue was down 5%.

Amortization of tenant incentives can fluctuate based on the timing of lease rollovers and leasing incentives. Straight-line rent (SLR) adjustments relate to new leases which have escalating rent rates and/or rent-free periods. SLR fluctuates due to the timing of signed leases and the rent-steps under individual leases.

Direct operating expenses were up 2% over 2021 due to higher property taxes and utility costs. Property taxes and utilities were up 4% over 2021. Utility costs, which include heating and air conditioning costs, fluctuate depending on weather conditions in the regions where our assets are located as well as prevailing utility rates, which are generally higher in Alberta where the majority of our properties are located. Property tax increases are the result of increased mill rates over the prior year.

Operating expenses remained stable over 2021. Operating expenses vary period by period depending on the timing of maintenance projects undertaken.

Inflationary pressures are driving up utility bills, including heating, gas and electricity. We expect these increases to impact operating expenses throughout 2023.

($000s except as noted)	2022	2021
Same asset NOI [1]	**45,523**	46,858
Disposals / Asset Held for Sale	**796**	906
NOI before adjustments	**46,319**	47,764
Amortization of operating lease incentives	**(3,725)**	(4,218)
Straight-line rent adjustment	**451**	208
Net rental income	**43,045**	43,754

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.

NOI and same-asset NOI are non-GAAP financial measures used in the real estate industry to measure the performance of investment properties. The IFRS measure most directly comparable to NOI and same-asset NOI is net income. Refer to the Non-GAAP Measures section starting on page 40 of this MD&A for more information.

NOI and same-asset NOI were down 3% over 2021 due to the Early Termination Event in 2021. Excluding this, NOI and same-asset NOI were down 1% which is consistent with the increase in direct operating expenses noted above.

Same-asset NOI varies from NOI above due to the the reclassification of an office building in Kelowna, BC as Asset Held for Sale as at December 31, 2022, which is excluded from both the current and comparative periods. Other than this, there have been no acquisitions or dispositions over the past three years.

Funds from Operations

Funds From Operations (FFO) is a non-GAAP financial measures used in the real estate industry to measure the operating performance of investment properties. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information. FFO within this division decreased by 4% over 2021 as a result of a $1.00 million lease termination fee paid which was included in revenue in the comparative year (Q1-2021) as well as higher G&A and interest costs in 2022. Overall, FFO remains fairly consistent year over year and helps stabilize Melcor's overall operating results.

Fair Value of REIT Portfolio

	2022	2021
Number of properties	**39**	39
Total GLA (sf)	**3,346,240**	3,346,274
GLA (REIT owned %) (sf)	**3,216,141**	3,216,175
Fair value of portfolio ($000s) [1]	**719,682**	723,729
Weighted average capitalization rate	**7.08 %**	6.81 %
Weighted average terminal cap rate	**7.16 %**	6.90 %
Weighted average discount rate	**8.04 %**	7.86 %

(1) Supplementary financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.

Investment properties were valued by Melcor's internal valuation team with the assistance of qualified independent external valuation professionals. In 2022, external valuation professionals valued 44 investment properties (of 53 legal phases) with fair value of $578.35 million (including amounts presented as tenant incentives and straight-line rent adjustments), resulting in a fair value loss of $12.00 million.

In 2021, external valuation professionals valued 10 investment properties (of 53 legal phases) with fair value of $130.25 million (including amounts presented as tenant incentives and straight-line rent adjustments), resulted in fair value gains of $2.88 million. Please refer to note 30 to the consolidated statements for additional information on the calculation of fair value adjustments.

Phases are a result of the property development process when a larger project is developed over an extended period of time and subdivided into legal phases for increased flexibility. As leases turn over, unit and/or building GLA is remeasured, resulting in changes to GLA.

A breakdown of our fair value adjustments on investment properties by geographic region is as follows:

($000s)	2022	2021
Northern Alberta	**(8,940)**	1,273
Southern Alberta	**(7,362)**	2,089
Saskatchewan & British Columbia	**4,307**	(483)
	(11,995)	2,879

Our valuation program requires the revaluation of each legal phase every two years or as market conditions dictate. Our entire portfolio was revalued in 2020, triggering an anomalous bump in properties due for revaluation in 2022. We are proactively working to schedule portfolio revaluations so that they are more evenly distributed.

Fair value adjustments represent a change of approximately 1.7% (2021 - 0.4%) in the fair value of our portfolio. Rising interest rates increased our cost of borrowing and overall risk of investing, contributing to higher capitalization rates and a corresponding decrease in fair value on investment properties. At year-end, we had accepted an offer to purchase an investment property and the property was reclassified as asset held for sale. The offer to purchase was in excess of the carrying value of the property at the time the offer was accepted, resulting in a fair value adjustment on the property included in the $4.31 million gain above. This sale closed on February 1, 2023.

The REIT will continue to monitor its portfolio and the market in assessing fair value changes and cautions readers that further fair value adjustments may be required in the future.

Recreational Properties

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

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

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

Operating Results

($000s except as noted)	2022	2021
Revenue	**10,453**	9,989
Gross profit	**4,327**	4,248
Gross margin (%) (1)	**41.4 %**	42.5 %
Earnings	**1,657**	1,789

(1) Supplementary financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.

Our Edmonton area courses opened almost three weeks later than in 2021 due to weather conditions. Despite the shorter golf season, Recreational Properties revenue grew by 5%. Decreased green fee revenue, with 10% fewer rounds played in 2022 was offset by growth in food and beverage revenues, which contributed $2.70 million in 2022 compared to $2.46 million in 2021. Gross margin remained stable at 41%.

Melcor operated golf courses in Alberta closed on October 28, 2022 and Kelowna closed on October 31, 2022.

		2022		
	Ownership interest	Season opened	Season closed	Rounds of golf [1]
Managed by Melcor:				
Lewis Estates (Edmonton)	**60%**	**April 22**	**October 28**	**31,138**
The Links (Spruce Grove)	**100%**	**April 22**	**October 28**	**29,894**
Black Mountain (Kelowna)	**100%**	**March 30**	**October 31**	**38,496**
Managed by a Third Party:				
Jagare Ridge (Edmonton)	**50%**	**April 30**	**October 16**	**23,914**

		2021		
	Ownership interest	Season opened	Season closed	Rounds of golf [1]
Managed by Melcor:				
Lewis Estates (Edmonton)	60%	April 2	October 28	34,823
The Links (Spruce Grove)	100%	April 2	October 28	33,407
Black Mountain (Kelowna)	100%	April 1	October 31	39,591
Managed by a Third Party:				
Jagare Ridge (Edmonton)	50%	April 14	October 17	28,958

[1] *Rounds of golf indicated at 100%.*

General and Administrative Expense

General and administrative (G&A) expense was up 5.0% over 2021. Community Development G&A was up as we saw increased activity and the reversal of various cost constraints initiatives that were in place in prior periods. Investment Properties and REIT division G&A increased due to non-recurring one time expenses as well as increased professional fees, which includes our third party property appraisals, legal and accounting fees.

Decreased revenue and higher expenses contributed to G&A at 9.5% of revenue compared to 6.9% in 2021. Management continues to prudently monitor and manage controllable expenses.

Income Tax Expense

The statutory tax rate for the year ended December 31, 2022 is 23% (2021 - 23%). The most significant adjustment impacting the 2022 effective tax rate was the fair value gain on REIT units, which is not subject to tax. Other items that impacted the effective tax rate include permanent differences related to revaluation adjustments on investment properties, distributions to REIT unitholders and the non-taxable portion of REIT income (after removal of fair value gain on Class B units).

Financing

As at December 31, 2022, our total general debt outstanding was $740.37 million compared to $716.91 million in 2021. The financing function is managed by our corporate division and decisions on how to deploy operating and acquisition funds are a centrally managed corporate decision. We use various forms of financing to fund our development and acquisition activities. We are often able to leverage the assets in one division to fund development opportunities in others.

A summary of our debt is as follows:

As at ($000s)		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
		740,365	716,913

a) Melcor - revolving credit facilities

One of our primary sources of funding for development projects is an operating line of credit with a syndicate of major chartered banks. This line of credit margins our community development and qualifying property development assets.

We benefit by being able to borrow at rates fluctuating with prime. Our current cost of borrowing on a floating basis is low when compared to the historical cost of funds.

Under the terms of the facilities, Melcor pledges specific agreements receivable, specific lot inventory, undeveloped land inventory and a general security agreement as collateral. The facilities that mature on July 31, 2023 are renewable one year in advance of expiry and may be modified.

A summary of the credit facilities is as follows:

As at ($000s)		2022	2021
Credit limit approved	i)	**196,350**	191,410
Supportable credit limit	ii)	**176,264**	174,790
Credit used		**(96,839)**	(87,050)
Credit available		**79,425**	87,740

i. The portion of these loan limits that relate solely to Melcor Developments Ltd. is $120.00 million (2021 - $120.00 million) with the remaining balance pertaining to specific joint arrangements.

ii. Our supportable credit limit is calculated based on a formula and tests as required by the bank. The supportable credit limit is calculated based on agreements receivable balances and land inventory. As such, the supportable limit fluctuates in response to increases or decreases in these balance sheet accounts. Management monitors the supportable credit limit and keeps the bank informed at all times of its current collections and inventory production plans.

In the normal course of development operations, we are required to issue letters of credit as collateral for the completion of obligations pursuant to development agreements signed with municipalities. The credit facility described above also includes a letter of credit facility. Melcor's letter of credit balances, net of joint arrangement interests are:

As at ($000s)	2022	2021
Total letter of credit facility	**77,147**	75,947
Letters of credit issued	**(31,732)**	(27,050)
Available for issue	**45,415**	48,897

b) REIT - revolving credit facility

The REIT has an available credit limit based on the carrying values of specific investment properties up to a maximum of $35.00 million for general purposes, including a $5.00 million swingline sub-facility. An additional $15.00 million is available by way of an accordion feature, subject to lender approval. Depending on the form under which the 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 $5.00 million in available letters of credit which bear interest at 2.25%. The facility matures June 1, 2024.

As at December 31, 2022, we have an approved credit facility of $34.10 million (December 31, 2021 - $35.00 million). As at December 31, 2022 we had $31.63 million (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).

c) Project specific financing

We use project financing to supplement our line of credit, or when certain projects allow us to access a lower cost of capital typically provided by project financing. This type of loan usually has floating rates of interest tied to prime.

The composition of our project specific financing is as follows:

As at ($000s)	2022	2021
Project specific debt on investment properties under development, with 6.95% interest rate (2021 - 2.75% to 2.95%)	**9,363**	38,471
Project specific debt on land, with interest rates between 7.83% and 8.42% (2021 - 3.83%)	**13,234**	2,287
	22,597	40,758
Weighted average effective interest rate	**7.72 %**	2.92 %

Project specific debt is due on demand.

d) Secured vendor take back debt on land inventory

This debt is primarily comprised of loans on the acquisition of land that are held by the land vendor and can have fixed or variable rates of financing with repayments over 2 years. Current debts mature in 2023.

As at ($000s)	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
Weighted average effective interest rate	**4.13 %**	4.13 %

As at December 31, 2022 no debt was payable in US dollars (2021 - $nil).

e) Debt on investment properties and golf course assets

We use fixed rate, long-term mortgage financing on our investment property assets to raise capital. We are able to finance increased loan amounts from our existing portfolio of buildings as old mortgages renew and there is increased equity in our investment properties.

Debt on investment properties and golf course assets in the amount of $539.11 million, excluding fair value adjustments and deferred finance fees, reflects financing placed on investment properties that have a carrying value of $858.18 million.

Rates are negotiated at a pre-agreed benchmark bond rate plus a spread and are negotiated with different lenders to ensure competitive terms and multiple sources. New mortgage rates from Canadian lending institutions ranged from 2.79% to 5.90% in 2022.

The composition of our debt on investment properties and golf course assets is as follows:

As at ($000s)	2022	2021
Canadian mortgage at floating interest rate of prime plus 1%	**5,876**	–
Canadian mortgages at fixed rates	**366,176**	387,385
Canadian mortgages at variable rates	**116,840**	60,035
US mortgages at fixed rates	**47,114**	45,184
US mortgages at variable rates	**6,005**	17,315
	542,011	509,919
Fair value adjustment on interest rate swaps	**–**	(629)
Unamortized deferred financing fees	**(2,901)**	(2,908)
	539,110	506,382
Interest rate ranges	**(2.62% - 5.90%)**	(1.75% - 4.90%)
Weighted average effective interest rate	**3.75 %**	3.42 %

Loan maturity dates are spread out so as to reduce associated loan renewal risks. The following table represents cumulative loan amounts due for renewal over the next ten years:

Year	Loan renewal amount ($000s)	Weighted average interest rate	Number of loans
2023	78,487	4.28%	8
2024	48,549	3.79%	7
2025	50,482	3.67%	9
2026	79,800	3.17%	11
2027	26,319	4.61%	3
2028	57,387	3.96%	6
2029	71,421	3.36%	6
2030	36,100	2.82%	4
2031	36,309	2.83%	4
2032	57,157	4.48%	4

As at December 31, 2022, $53.12 million of debt was payable in US dollars (2021: $62.50 million).

f) REIT - convertible debentures

On December 21, 2017, the REIT issued a 5.25% extendible convertible unsecured subordinated debenture ("2017 Debenture") to the public for gross proceeds of $23.00 million, including $3.00 million issued pursuant to the exercise of an over-allotment option. The 2017 Debenture bore interest at an annual rate of 5.25% payable semi-annually in arrears on June 30 and December 31 in each year commencing June 30, 2018. The maturity date of the 2017 Debenture was December 31, 2022. The REIT paid off the 2017 Debenture in full on its maturity (December 31, 2022) using its revolving credit facility.

On October 29, 2019, the REIT issued a 5.10% extendible convertible unsecured subordinated debenture ("2019 Debenture") to the public for gross proceeds of $46.00 million, including $6.00 million issued pursuant to the exercise of an over-allotment option. The 2019 Debenture bears interest at an annual rate of 5.10% payable semi-annually in arrears on June 30 and December 31 in each year commencing December 31, 2019. The maturity date of the 2019 Debenture is December 31, 2024. The 2019 Debenture can be converted into trust units at the holders' option at any point prior to the maturity date at a conversion rate of 112.3596 trust units per one thousand principal amount of convertible debenture.

These debentures were a source of financing and the funds were used to complete property acquisitions.

Liquidity & Capital Resources

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

As at ($000s except as noted)	2022	2021
Cash & cash equivalents	**80,465**	59,920
Restricted cash	**2,761**	4,824
Accounts receivable	**12,487**	10,097
Agreements receivable	**97,232**	127,739
Revolving credit facilities	**128,473**	87,050
Accounts payable and accrued liabilities	**53,213**	50,476
Total assets	**2,167,050**	2,113,927
Total liabilities	**988,714**	997,458
Debt to equity ratio (1)	**0.84**	0.89

(1) Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.

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

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

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

We believe that internally generated cash flows, supplemented by borrowings through our credit facility and mortgage financings, where required, will be sufficient to cover our normal operating and capital expenditures. We regularly review our credit facility limits and manage our capital requirements accordingly.

We do not currently have any other plans to raise additional capital through the issuance of common shares, trust units, preferred shares or convertible debentures; however, under certain circumstances, we would consider these means to facilitate growth through acquisition or to reduce the utilized level on our credit facility.

Cash requirements

The following information about our contractual obligations and other commitments summarizes certain of our liquidity and capital resource requirements. The information presented includes legally committed capital expenditures.

Contractual obligations include:

		Payments due by period			
	Total	**Less than 1 year**	**1 to 3 years**	**4 to 5 years**	**After 5 years**
Debt on investment properties and golf course assets	542,012	91,523	117,708	112,349	220,432
Revolving credit facilities	128,473	128,473	–	–	–
Secured vendor take back debt on land inventory	5,717	5,717	–	–	–
Project specific financing	22,597	22,597	–	–	–
REIT debenture	46,000	–	46,000	–	–
Interest expense	89,765	25,315	31,605	16,812	16,033
Operating leases	410	182	228	–	–
Total contractual obligations	834,974	273,807	195,541	129,161	236,465

We also have a contractual obligation of $71.89 million on the non-controlling interest portion of REIT units as they are redeemable at the option of the holder.

Sources and uses of cash

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

	2022	**2021**
Cash flows from operating activities	**18,351**	72,822
Cash flows from (used in) investing activities	**18,330**	(17,678)
Cash flows from (used in) financing activities	**(17,259)**	(24,556)

Operating activities:

Cash from operations was down by $54.47 million in 2022. Net income, adjusted for non-cash items, contributed $58.30 million compared to $80.47 million in 2021 with the decrease attributable to lower revenue and margins generated by our Community Development division.

In 2022 we purchased land for $4.25 million (net of transaction costs) compared with land purchases of $3.04 million in 2021. Development activities resulted in $44.65 million in net cash outflows in 2022 compared to $35.08 million in net cash inflows in 2021. Current year payment of tenant incentives and direct leasing costs increased by $7.05 million over 2021.

Agreements receivables at year end were $97.23 million, down from $127.74 million as a result of the volume of plan registrations and sales in the forth quarter of 2022. This had a positive impact of cash in the year of $30.51 million compared to a negative impact of $54.40 million in 2021, when we saw a increase in year end agreements receivable over 2020. We also incurred $15.10 million in tenant incentives and direct leasing costs in 2022 to renew and secure new leases. These costs can vary year over year tenant on the mix of leasing that occurs.

Investment activities:
Cash from investing activities was $18.33 million, a positive swing of $36.01 million over 2021. During 2022 we sold 117 residential units in Phoenix, AZ for net proceeds of $35.00 million. This compares to proceeds in 2021 of $7.43 million.

We continue to invest in improving our asset base through value enhancing projects. Additions to investment properties include development activities in Property Development and enhancements to properties held in the Investment Properties and REIT operating divisions. In 2022 we invested $16.01 million in properties under development, property improvements and capitalized borrowing costs, compared with $22.81 million in 2021.

Financing activities:
Cash used in financing activities was down $7.30 million over 2021 due to draws on our revolving credit facilities of $41.42 million compared to $17.14 million in 2021. Included in the draws on our credit facility was the repayment of the 2017 Debentures for $22.98 million (included as a repayment of general debt on the statement of cash flows). General debt contributed a net cash inflow of $4.39 million in the current year through financings received and repayments made, compared to net cash outflows of $23.50 million in 2021.

During the year, we repurchased 1,777,662 shares for $21.44 million through a combination of daily and block purchases as allowed under our NCIB plan. These shares were subsequently canceled and returned to treasury. This compares to 244,726 shares purchased for $3.35 million and subsequently canceled in 2021.

In 2022, we paid dividends of $0.58 per share (2021 - $0.44 per share), for a total cash outflow of $18.66 million, compared to $14.53 million in 2021.

Subsequent to the year, $24.01 million (US$18.00 million) from the proceeds on the US residential unit sales was repatriated and used to pay down our line of credit.

Share Data

Melcor has been a public company since 1968 and trades under the symbol “MRD” on the Toronto Stock Exchange. As at December 31, 2022 there were 31,248,628 common shares issued and outstanding, 223,000 stock options, and 313,806 restricted share units. Each stock option and restricted share unit is convertible to one common share upon exercise or exchange. There is only one class of shares issued. As at March 16, 2023 there were 31,248,628 common shares issued and outstanding, 223,000 stock options, and 313,806 restricted share units.

Please refer to note 17 to the consolidated financial statements for information pertaining to our outstanding shares and options.

Normal Course Issuer Bid

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

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

On April 1, 2022 Melcor commenced a new NCIB, which allows Melcor to purchase up to 1,641,627 shares for cancellation, representing approximately 5% of the issued and outstanding shares. The shares may be repurchased up to a maximum daily limit of 1,281. The price Melcor will pay for shares repurchased under the plan will be the market price at the time of acquisition. The NCIB ends one year from commencement on March 31, 2023. Melcor has entered into an automatic share purchase plan (ASPP) agreement with a broker to allow shares to be purchased under the NCIB at times we would ordinarily not be active in the market due to regulatory restrictions or self-imposed blackout periods. On December 22, 2022, Melcor filled the NCIB by purchasing the final shares bringing the total purchased 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.

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

The REIT did not renew its NCIB.

Off Balance Sheet Arrangements

In the normal course of operations, Melcor engages in transactions that, under IFRS, are either not recorded on our consolidated statements of financial position or are in amounts that differ from the full contract amounts. The main off-balance sheet arrangements we make include the issuance of guarantees and letters of credit.

A discussion of our letter of credit facility arrangement can be found in the Financing section. Refer to note 20 to the consolidated financial statements for information pertaining to our guarantees and letters of credit.

Quarterly Results

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

	2022				2021			
($000s)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	76,261	61,136	51,044	53,306	150,598	56,213	65,547	43,270
Net income (loss)	37,202	23,774	25,908	2,470	44,769	16,561	9,014	(14,033)
FFO [2]	22,297	16,012	11,853	10,697	42,311	12,516	16,326	10,174
Per Share								
Basic earnings (loss)	1.15	0.73	0.79	0.08	1.35	0.50	0.27	(0.42)
Diluted earnings (loss)	1.15	0.73	0.79	0.07	1.35	0.50	0.27	(0.42)
FFO basic [1]	0.70	0.49	0.36	0.33	1.28	0.38	0.49	0.31
FFO diluted [1]	0.71	0.49	0.36	0.32	1.28	0.38	0.49	0.31
Book value [1]	37.71	35.55	34.78	33.81	33.87	32.69	32.10	31.98

(1) Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.
(2) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.

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

Fourth Quarter

Three months ended December 31 ($000s)	2022	2021
Revenue	76,261	150,598
Cost of sales	(39,194)	(89,963)
Gross profit	37,067	60,635
General and administrative expense	(5,372)	(6,873)
Fair value adjustment on investment properties	21,801	9,330
Adjustments related to REIT units	1,815	(997)
Gain on sale of assets	3	24
Operating earnings	55,314	62,119
Interest income	524	125
Foreign exchange gain	1,109	76
Finance costs	(6,794)	(5,337)
Net finance costs	(5,161)	(5,136)
Income before income taxes	50,153	56,983
Income tax expense	(12,951)	(12,214)
Net income for the period	37,202	44,769
Earnings per share attributable to Melcor's shareholders:		
Basic earnings per share	1.15	1.35
Diluted earnings per share	1.15	1.35

Highlights of the fourth quarter include:

- Our Property Development division completed and transferred 3 buildings (17,137 sf) to Investment Properties.
- Our Community Development division registered 11 plans in 8 communities, which added 804 lots to inventory with 384 lots sold in Q4-2022. Included in the 804 lots is 234 lots in the US and 570 lots in Canada. This compares to 23 plan registrations in 14 communities adding 1,357 lots to inventory with 1,133 lots sold in Q4-2021. Included in the 1,357 lots was 277 lots in the US and 1,080 in Canada.
- Investment Properties sold the remaining 109 units at the Dakota's at Camelback (Arizona) for $31.24 million, net of transaction costs (US$23.22 million).
- The REIT entered into an unconditional agreement to sell an office building in Kelowna, BC for proceeds of $19.03 million, net of transaction costs. This was reclassified as held for sale during the quarter and subsequently closed on February 1, 2023.
- We completed buying back the maximum shares allowable (1,641,627) under our current NCIB on December 22, 2022.

Segmented information for the fourth quarter is as follows:

Three months ended December 31, 2022	**Community Development**	**Property Development**	**Investment Properties**	**REIT**	**Recreational Properties**	**Corporate**	**Subtotal**	**Intersegment Elimination**	**Total**
Revenue	61,115	6,889	10,854	18,797	834	–	98,489	(22,228)	**76,261**
Cost of sales	(37,595)	(6,733)	(4,723)	(8,214)	(1,105)	–	(58,370)	19,176	**(39,194)**
Gross profit	23,520	156	6,131	10,583	(271)	–	40,119	(3,052)	**37,067**
General and administrative expense	(2,262)	(407)	(961)	(977)	(646)	(828)	(6,081)	709	**(5,372)**
Fair value adjustment on investment properties	–	2,376	26,212	(9,130)	–	–	19,458	2,343	**21,801**
Gain on sale of assets	–	–	–	–	3	–	3	–	**3**
Interest income	433	2	17	9	4	59	524	–	**524**
Segment earnings (loss)	21,691	2,127	31,399	485	(910)	(769)	54,023	–	**54,023**
Foreign exchange gain									**11,593**
Finance costs									**(17,278)**
Adjustments related to REIT units									**1,815**
Income before income taxes									**50,153**
Income tax expense									**(12,951)**
Net income for the period									**37,202**

Three months ended December 31, 2021	**Community Development**	**Property Development**	**Investment Properties**	**REIT**	**Recreational Properties**	**Corporate**	**Subtotal**	**Intersegment Elimination**	**Total**
Revenue	123,922	30,918	9,501	18,542	698	–	183,581	(32,983)	150,598
Cost of sales	(77,475)	(30,900)	(4,343)	(8,009)	(987)	–	(121,714)	31,751	(89,963)
Gross profit	46,447	18	5,158	10,533	(289)	–	61,867	(1,232)	60,635
General and administrative expense	(1,831)	(603)	(777)	(738)	(657)	(2,976)	(7,582)	709	(6,873)
Fair value adjustment on investment properties	–	1,219	7,374	214	–	–	8,807	523	9,330
Gain on sale of assets	–	–	–	–	24	–	24	–	24
Interest income	111	–	–	10	–	4	125	–	125
Segment earnings (loss)	44,727	634	11,755	10,019	(922)	(2,972)	63,241	–	63,241
Foreign exchange gain									76
Finance costs									(5,337)
Adjustments related to REIT units									(997)
Income before income taxes									56,983
Income tax expense									(12,214)
Net income for the period									44,769

Outlook

Melcor owns a high quality portfolio of assets, including raw land, developed land inventory (residential lots and acres for multi-family and commercial development), income-producing properties and championship golf courses.

Alberta, our largest market, has undergone dramatic changes throughout the past few years, due to volatile oil prices, pandemic operating constraints and rising interest rates. We have diversified our business across asset class and geography, including investment in the US with raw land and commercial property acquisitions and the continued development of our community in Aurora, CO.

Inflation and interest rate increases have generally slowed the Canadian market however we have found stable demand for quality new homes and office and retail space. Alberta is projected to have Canada's highest GDP growth in 2023.

We expect to develop approximately 1,000 new single-family lots across our portfolio in 2023 to meet market demand. On the commercial side, retail activity remains steady and we expect that to continue in 2023. Although our 2022 US Community Development division did not provide us with strong results, we have a positive outlook for 2023.

Our business model has adapted to changing times and economic cycles over the years. We will maintain our disciplined, conservative approach to operations to ensure that we remain profitable while achieving our fundamental goals of protecting shareholder investment and sharing corporate profit with our shareholders.

With appropriate levels of serviced land inventory, movement of residential and commercial land through the municipal approvals process, steady occupancy rates and capacity on our operating facility, we remain well-positioned for the future.

Interest in the REIT

The REIT is an unincorporated, open-ended real estate investment trust established pursuant to a declaration of trust dated January 25, 2013, which was subsequently amended and restated May 1, 2013.

The REIT began operations on May 1, 2013 when trust units were issued for cash pursuant to the initial public offering (Offering or IPO). Units of the REIT trade on the Toronto Stock Exchange under the symbol MR.UN. The REIT is externally managed, administered and operated by Melcor pursuant to the property management and asset management agreements entered into in conjunction with the IPO.

As of March 16, 2023, Melcor holds a 55.4% (December 31, 2021 - 55.4% and December 31, 2022 - 55.4%) effective interest in the REIT through ownership of all Class B LP units of the partnership through an affiliate and a corresponding number of special voting units of the REIT. The Class B LP units are economically equivalent to, and are exchangeable for, trust units. Melcor is the ultimate controlling party.

As we retain control over the REIT, we consolidate the REIT and record 100% of its revenues, expenses, assets and liabilities. We reflect the public's 44.6% interest (December 31,2021 - 44.6% and 2022 - 44.6%) in the REIT as a financial liability.

Arrangements between Melcor and the REIT

Melcor continues to manage, administer and operate the REIT and its properties under an asset management agreement and property management agreement. The following summarizes services to be provided to the REIT and the compensation to be paid to Melcor.

Asset management agreement - we receive a quarterly management fee which is comprised of the following:

a. a base annual management fee calculated and payable on a quarterly basis, equal to 0.25% of the REIT's gross book value;
b. a capital expenditures fee equal to 5.0% of all hard construction costs incurred on capital projects in excess of $0.10 million;
c. an acquisition fee equal to 0.5% - 1.0% of the purchase price;
d. a financing fee equal to 0.25% of the debt and equity of all financing transactions completed for the REIT to a maximum of actual expenses incurred by Melcor.

Property management agreement - we receive a monthly fee which is comprised of the following:

a. a base fee of 3.0% of gross property revenue;
b. an upfront market fee payable on a transaction by transaction basis, but only for transactions where a third party leasing agent was not engaged. The Melcor Lease Fee structure shall represent current market terms in each particular market where leasing services are provided to the REIT.

IPO transaction costs - Costs incurred by Melcor in relation to the REIT's IPO were reimbursed by the REIT to the extent that these costs were eligible for capitalization against the unit issuance.

Upon consolidation we eliminate Class B LP Units, Class C LP Units, distributions on Class B LP Units, distributions on Class C Units, and fees earned under the asset management agreement and property management agreement.

Business Environment & Risks

A discussion of credit risk, liquidity risk and market risk can be found in note 29 to the consolidated financial statements.

The following is an overview of certain risk factors that could adversely impact our financial condition, results of operations, and the value of our common shares.

General Risks

We are exposed to the micro- and macro-economic conditions that affect the markets in which we operate and own assets. In general, a decline in economic conditions will result in downward pressure on Melcor's margins and asset values as a result of lower demand for the services and products we offer. Specifically, general inflation and interest rate fluctuations; population growth and migration; job creation and employment patterns; consumer confidence; government policies and global politics, regulations and taxation; and availability of credit and financing could pose a threat to our ongoing business operations. Improvements to these factors could have a positive impact on our results.

International economic forces and conditions will impact our business as our investment into the US grows. We adapt our business plan to reflect current conditions and we believe that we have sufficient resources to carry our operations through uncertain times.

We participate in joint arrangements under the normal course of business that may have an effect on certain assets and businesses. These joint arrangements may involve risks that would not otherwise be present if the third parties were not involved, including the possibility that the partners have different economic or business interests or goals. Also, within these arrangements, Melcor may not have sole control of major decisions relating to these assets and businesses, such as: decisions relating to the sale of the assets and businesses; timing and amount of distributions of cash from such entities to Melcor and its joint arrangement partners; and capital expenditures.

Adverse Global Market, Economic and Political Conditions

Adverse Canadian and global market, economic and political conditions, including credit market volatility and general economic uncertainty, unexpected or ongoing geopolitical events (including disputes between nations, war, terrorism or other acts of violence), could have a material adverse effect on our business, results of operations and financial condition. Potential impacts include the value of our properties, the availability of financing on favourable terms, our ability to make principal and interest payments on, or refinance, any outstanding debt when due, the occupancy rates in our properties, and our tenants ability to enter into new leases or satisfy rental payments under existing leases.

Real Estate Risk

Real estate investments are subject to varying levels of risk. These risks include changes to general economic conditions, government and environmental regulations, local supply/demand, and competition from other real estate companies. Real estate assets are relatively illiquid in down markets. As a result, Melcor may not be able to rebalance its portfolio in response to changing economic or investment conditions.

Other real property risks include:

- The value of the property and any improvements made to it;
- Rollover of leases and the ability to rent unleased suites;
- Financial stability of tenants and their ability to pay rent and fulfill their lease obligations; and
- Geographic concentration.

Cash available for dividends will be adversely affected if a significant number of tenants are unable to meet their obligations under their leases or if a significant amount of space in our properties becomes vacant and cannot be leased on economically favourable lease terms.

General declines in real estate markets, including changes in demand for real estate resulting from COVID-19 and related economic conditions, will impact fair values reported or the cash flows associated with owning or disposing of such properties. Market assumptions applied for valuation purposes do not necessarily reflect Melcor's specific history or experience, and the conditions for realizing the fair values through a sale may change or may not be realized. Consequently, there is a risk that the actual fair values may differ, and the differences may be material. In addition, there is an inherent risk related to the reliance on and use of a single appraiser as this approach may not adequately capture the range of fair values that market participants would assign to the real estate properties. Certain ratios and covenants could be negatively affected by downturns in the real estate market and could have significant impact on the REIT's operating revenues and cash flows, as well as the fair values of the real estate properties.

Concentration of Assets Risk

The majority of our assets are located in Alberta. Adverse changes in economic conditions in Alberta may have a material adverse effect on our business, cash flows, financial condition and results of operations and ability to pay dividends. The Alberta economy is sensitive to the price of oil and gas. To mitigate against this risk, we endeavor to diversify our revenue mix by product and location. On the flip-side, growth in the price of oil and gas may have a positive affect. Melcor's shareprice has traditionally tracked with oil prices.

Financing & Interest Rates Risk

We use debt and other forms of leverage in the ordinary course of business to enhance returns to shareholders. There is a risk that interest rates will continue to increase, which could result in a significant increase in the amount required to service debt. Most leveraged debt within the business has recourse only to the assets being financed or margined and has no recourse to Melcor. We are subject to general risks associated with debt financing.

The following risks may adversely affect our financial condition and results of operations:

- Cash flow may be insufficient to meet required payments of principal and interest;
- Payments of principal and interest on borrowings may leave us with insufficient cash resources to pay operating expenses;
- We may not be able to refinance indebtedness on our assets at maturity due to company and market factors;
- The fair market value of our assets;
- Liquidity in the debt markets;
- Financial, competitive, business and other factors, including factors beyond our control;
- Refinancing terms that are not as favourable as the original terms of the related financing.

We attempt to mitigate these risks through the use of long-term debt and diversifying terms and maturity dates.

The terms of various credit agreements and other financing documents require that we comply with a number of financial and other covenants, such as maintaining debt service coverage and leverage ratios, and minimum insurance coverage. These covenants may limit our flexibility in our operations, and breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness even if we had satisfied our payment obligations.

If we are unable to refinance assets/indebtedness on acceptable terms, or at all, we may need to utilize available liquidity, which would reduce our ability to pursue new investment opportunities, or require that we dispose of one or more of our assets on disadvantageous terms. In addition, unfavourable interest rates or other factors at the time of refinancing could increase interest expense.

A large proportion of our capital is invested in physical, long-lived assets, which can be difficult to liquidate, especially if local market conditions are poor. This circumstance could limit our ability to diversify our portfolio of assets promptly in response to changing economic or investment conditions.

We enter into financing commitments in the normal course of business and, as a result, may be required to fund these, particularly through joint arrangements. If we are unable to fulfill any of these commitments, damages could be pursued against Melcor.

Environmental Risk

Our development activities are subject to various requirements (including federal, provincial and municipal laws) relating to the protection of the environment. For example, environmental laws or local bylaws may apply to a development site based on its environmental condition, present and former uses, and its adjoining properties. Environmental laws and conditions may result in delays, cause Melcor to incur significant compliance and other costs, and can severely restrict or prevent development in environmentally sensitive regions or areas.

Under these requirements, we could be, or become, liable for environmental or other harm, damage or costs, including with respect to the release of hazardous, toxic or other regulated substances into the environment and/or affecting persons, and the removal or other remediation of hazardous, toxic or other regulated substances that may be present at or under our properties (including commercial buildings, land inventory and development sites).

Such requirements often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such substances. Additional liability may be incurred by Melcor with respect to the release of such substances from our properties to properties owned by third parties, including properties adjacent to our properties or with respect to the exposure of persons to such substances. The failure to remove or otherwise address such substances may materially adversely affect our ability to sell such property, maximize the value of such property or borrow using such property as collateral security, and could potentially result in claims or other proceedings against Melcor.

We employ a rigorous due diligence process prior to acquiring raw land, development sites or investment properties to mitigate our exposure to these potential issues. It is our operating policy to obtain, or be entitled to rely on, a Phase I environmental site assessment prior to acquiring property or land. Where a Phase I environmental site assessment warrants further investigation, it is our operating policy to conduct further environmental investigations. Although such environmental assessments provide Melcor with some level of assurance about the condition of the property, we may become subject to liability for undetected contamination or other environmental conditions of our properties against which we cannot insure, or against which we may elect not to insure where insurance premium costs are considered to be disproportionate to the assessed risk, which could have a material adverse effect on our business, cash flows, financial condition and results of operations and ability to make distributions to unitholders.

Environmental laws and other requirements can change and we may become subject to more stringent environmental laws or other requirements in the future. Compliance with more stringent environmental laws or requirements, the identification of currently unknown environmental issues or an increase in the costs required to address a currently known condition may have a material adverse effect on our business, cash flows, financial condition and results of operations and ability to pay dividends to shareholders.

Melcor bears the risk of assessment, remediation or removal of such contamination, hazardous substances or other residual pollution. The discovery of any such residual pollution on the sites and/or in the buildings, particularly in connection with the lease or sale of properties or borrowing using the real estate as security, could trigger claims for rent reductions or termination of leases for cause, for damages and other breach of warranty claims against Melcor. The remediation of any contamination and the related additional measures we would have to undertake could have a materially adverse effect and could involve considerable additional costs that we may have to bear. Melcor will also be exposed to the risk that recourse against the polluter or the previous owners or occupants of the properties might not be possible, for example, because they cannot be identified, no longer exist or have become insolvent. Moreover, the existence or even the mere suspicion of the existence of contamination, hazardous materials or other residual pollution can materially adversely affect the value of a property and our ability to lease or sell such a property.

We employ a rigorous due diligence process, including obtaining a Phase I environmental site assessment, prior to acquiring property to mitigate our exposure to these potential issues.

Pandemics, Natural Disasters or Other Unanticipated Events

The occurrence of pandemics, natural disasters, or other unanticipated events, in any of the areas where we or our partners and suppliers operate could disrupt operations. In addition, pandemics, natural disasters or other unanticipated events could have a material adverse effect on our business, financial condition, results of operations and cash flows. The COVID-19 pandemic resulted in restrictive government measures. Future outbreaks of viruses or other contagions, epidemic or pandemic diseases including subsequent outbreaks of COVID may lead to prolonged voluntary or mandatory building and/or business closures, restrictions on travel and gatherings, quarantines, self-isolation and physical distancing. The impact of these measures may cause a general shutdown of economic activity and disrupt workforce and business operations in the regions where we operate. An occurrence such as this, including the COVID-19 pandemic, could have material adverse effects and increased risk, including but not limited to:

- negative impact on pricing and availability of Canadian debt and equity capital markets
- material reduction in rental revenue and related collections due to financial hardship and government ordered closures of certain business
- reduced demand for commercial real estate leading to a material increase in vacancy and decline in revenue
- trading price of Melcor's securities
- negative impact to real estate valuations from declining revenue and lack of market activity
- ability to access capital markets at a reasonable cost
- uncertainty regarding delivering services due to illness, Melcor or government imposed isolation programs, restrictions on the movement of personnel, closures and supply chain disruptions
- impact of additional legislation, regulation, fiscal and monetary policies and other government interventions

This is not an exhaustive list of all risk factors. To mitigate these risks, we have a comprehensive health and safety program and have expanded it to include pandemics. We have introduced new policies and practices both internally and at the properties that we manage to reduce the spread of COVID-19.

Cyber Security Risk

Cyber security has become an increasingly problematic issue for issuers and businesses in Canada and around the world, including for Melcor and the real estate industry in general. Cyber attacks may focus on financial fraud, obtaining sensitive data for inappropriate use or to disrupt business operations. A cyber incident is any adverse event that threatens the confidentiality, integrity or availability of our information resources, including intentional or unintentional events to gain unauthorized access to information systems to disrupt operations, corrupt data or steal confidential information.

As our reliance on technology has increased, so has our risk of a cyber security breech. The primary risks that could directly result from the occurrence of a cyber incident include operational interruption, damage to our reputation, damage to our business relationships with tenants and suppliers, disclosure of confidential information regarding our tenants, employees and third parties with whom we do business, and may result in negative consequences, including remediation costs, loss of revenue, additional regulatory scrutiny and litigation.

We completed a cyber security assessment with a third party consultant which resulted in an action plan that we are working through. Progress is reported to the Audit Committee quarterly. Some of the actions we have implemented to remain resilient include processes, procedures and controls to help mitigate these risks, including installing firewalls and antivirus programs on our networks, servers and computers, staff training, and cyber security insurance. However, these measures, as well as our increased awareness of the potential risk of a cyber incident, does not provide assurance that our efforts will be effective or that attempted security breaches or disruptions will not be successful or damaging.

Volatile Market Price of the Melcor's Securities

Financial markets have experienced significant price and volume fluctuations in recent years. In many cases volatile market movement impacts a wide variety of issuers unrelated to the operating performance, underlying asset values or prospects of such issuers. The market price of Melcor's securities may decline even if our financial performance, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in losses. As well, certain institutional investors may base their investment decisions on consideration of Melcor's environmental, governance and social practices and performance according to such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited investment or no investment in Melcor's securities by those institutions. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil exist for a protracted period of time, our operations and the trading price of our securities could be adversely affected.

Insurance

Melcor carries comprehensive general liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for similar properties. There are, however, certain types of risks, generally of a catastrophic nature, such as wars or environmental contamination, which are either uninsurable or not insurable on an economically viable basis. Should an uninsured or underinsured loss occur, we could lose our investment in, and anticipated profits and cash flows from, one or more of our properties, but Melcor would continue to be obliged to repay any recourse mortgage indebtedness on such properties.

Community Development

The Community Development division is subject to risks influenced by the demand for new housing in the regions where we operate. Demand is primarily impacted by interest rates, growth in employment, migration, general economic conditions, new family formations and the size of these families. The division's ability to bring new communities to the market is impacted by municipal regulatory requirements and environmental considerations that affect the planning, subdivision and use of land. The planning and approval process can take several years. During this period, the market conditions in general and/or the market for lots in the size and price range in our developments may change dramatically.

In addition, supply chain delays and other issues have recently caused volatility in pricing and delivery times for homes under construction.

The division manages our assets to ensure that we have adequate future land assets to develop by ensuring appropriate approvals are in place and by balancing our inventory of land between long, medium and short-term development horizons against the cost of acquiring and holding these lands, and by locking in construction and material pricing early.

Property Development

The Property Development division is subject to risks that would normally be associated with the construction industry (such as fluctuating labour, material and consulting costs), combined with the normal leasing risks that the Investment Property division faces (see below).

The division manages the overall costs of projects, project financing requirements, construction quality, and the suitability of projects in relation to the needs of the tenants who will occupy the completed building. The division may be subject to additional holding costs if an asset is not leased out on a timely basis.

Investment Properties and REIT

The Investment Properties and REIT divisions are subject to the market conditions in the geographic areas where we own and manage properties. Where strong market conditions prevail, we are able to achieve higher occupancy rates. Market conditions are influenced by outside factors such as government policies, demographics and employment patterns, the affordability of rental properties, competitive leasing rates and long-term interest and inflation rates. Refer to Business Environment & Risks section of the REIT's annual MD&A filed on SEDAR and incorporated by reference.

Recreational Properties

The results of golf course operations may be adversely affected by weather, which limits the number of playing days; competition from other courses; the level of disposable income available to customers to spend on recreational activities; the popularity of the sport; and the cost of providing desirable playing conditions on the course.

While weather is outside our control, we manage our golf courses to provide consistent playing conditions to support the popularity of our courses. We also focus on growing revenue related to food and beverage and event rentals.

Other Financial Information

Critical Accounting Estimates

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with IFRS. In applying IFRS, 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. We have discussed the development, selection and application of our key accounting policies, and the critical accounting estimates and assumptions they involve, with the Audit Committee and the Board of Directors.

Our significant accounting policies and accounting estimates are contained in the consolidated financial statements. Please refer to note 3 to the consolidated financial statements for a description of our accounting policies and note 5 and 6 for a discussion of accounting estimates and judgments.

Changes in Accounting Policies and Adoption of IFRS

Refer to note 4 to the consolidated financial statements for information pertaining to accounting pronouncements that will be effective in future years.

Subsequent Events

Please refer to note 31 to the consolidated financial statements for information pertaining to subsequent events.

Joint Arrangement Activity

We record only our proportionate share of the assets, liabilities, revenue and expenses of our joint arrangements. Refer to note 24 to the consolidated financial statements for a listing of our current joint arrangements. The following table illustrates selected financial data related to joint arrangements at 100% as well as the net portion relevant to Melcor.

Joint arrangement activity at 100% ($000s)	2022	2021
Revenue	**180,699**	192,650
Earnings	**65,828**	62,219
Assets	**1,057,719**	1,081,983
Liabilities	**458,591**	472,594

Joint arrangement activity at Melcor's ownership % ($000s) [1]	2022	2021
Revenue	**81,364**	90,823
Earnings	**29,055**	29,608
Assets	**476,009**	488,178
Liabilities	**195,666**	205,691

(1) Ownership in joint arrangements varies from 7% - 60%.

Internal Control over Financial Reporting and Disclosure Controls

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant and material information is gathered and reported to senior management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), in a timely manner. Under the supervision of the CEO and CFO, we carried out an evaluation of the effectiveness of our disclosure controls and procedures as defined in Canada by National Instrument 52-109 as of December 31, 2022. Based on this evaluation, our CEO and CFO concluded that the design and operation of our disclosure controls and procedures related to Melcor and its subsidiaries and joint arrangements were effective.

Internal control over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management designed these controls based on the criteria set out in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013 Framework). The CEO and CFO have certified that the internal controls over financial reporting were properly designed and effective for the year ended December 31, 2022.

There has been no change to Melcor's disclosure controls and procedures or internal control over financial reporting during the year ended December 31, 2022, that materially affected, or is reasonably likely to materially affect, Melcor's internal control over financial reporting.

Notwithstanding the foregoing, no assurance can be made that the Melcor's controls over disclosure and financial reporting and related procedures will detect or prevent all failures of people to disclose material information otherwise required to be set forth in Melcor's reports.

Non-GAAP and Non-standard Measures

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

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

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

Calculations

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

Investment Properties

($000s)	Three-Months		Year Ended	
	December 31, 2022	December 31, 2021	**December 31, 2022**	December 31, 2021
Segment earnings [1]	**31,399**	11,755	**48,097**	31,077
Fair value adjustment on investment properties	**(26,212)**	(7,374)	**(25,663)**	(10,850)
General and administrative expenses	**961**	777	**3,162**	2,409
Interest income	**(17)**	–	**(31)**	(1)
Amortization of operating lease incentives	**447**	410	**1,620**	1,624
Straight-line rent adjustments	**(239)**	(200)	**(2,237)**	(963)
Divisional NOI	**6,339**	5,368	**24,948**	23,296

(1) Refer to note 25 to the consolidated financial statements

REIT

($000s)	Three-Months		Year Ended	
	December 31, 2022	December 31, 2021	**December 31, 2022**	December 31, 2021
Segment earnings [1]	**485**	10,019	**27,723**	43,710
Fair value adjustment on investment properties	**9,130**	(214)	**11,995**	(2,879)
General and administrative expenses	**977**	738	**3,358**	2,953
Interest income	**(9)**	(10)	**(31)**	(30)
Amortization of operating lease incentives	**962**	1,251	**3,725**	4,218
Straight-line rent adjustments	**(85)**	(144)	**(451)**	(208)
Divisional NOI	**11,460**	11,640	**46,319**	47,764

(1) Refer to note 25 to the consolidated financial statements

Further discussion over NOI can be found in the Investment Property and REIT Divisional Results sections starting on page 20 of the MD&A.

Same-asset NOI: Same-asset NOI is a non-GAAP financial measure that compares the NOI on assets that have been owned for the entire current and comparative period and are classified for continuing use. Further discussion over same-asset NOI can be found in the Investment Property and REIT Divisional Results sections starting on page 20 of the MD&A.

Fair value of investment properties: Fair value of investment properties in the REIT Divisional results section of the MD&A starting on page 23 is a supplementary financial measure and is calculated as the sum of the balance sheet balances for investment properties assets held for sale and other assets (TI's and SLR).

Gross margin (%): Gross margin percent is a supplementary that indicates the relative efficiency with which we earn revenue. This ratio is calculated by dividing gross profit by revenue. Please refer to the 2022 Highlights section on page 11 of the MD&A for further discussion.

Net margin (%): Net margin percent is a supplementary financial measure that indicates the relative efficiency with which we earn income. This ratio is calculated by dividing net income by revenue. Please refer to the 2022 Highlights section on page 11 of the MD&A for further discussion.

Book value per share: Book value per share is a non-GAAP financial ratio and is calculated as shareholders' equity over number of common shares outstanding. Please refer to the 2022 Highlights section on page 11 of the MD&A for further discussion.

Debt to equity ratio: this is a non-GAAP financial ratio and is calculated as total debt over total equity. Refer to the Liquidity & Capital Resources section on page 29 of the MD&A for further discussion.

Portion of total revenue: Portion of total revenue is a supplementary financial measure and is calculated as divisional revenue over total consolidated revenue. Refer to the Divisional Results section on page 15 of the MD&A for further information.

Portion of total gross profit: Portion of total gross profit is a supplementary financial measure and is calculated as divisional gross profit over total consolidated gross profit. Refer to the Divisional Results section on page 15 of the MD&A for further information.

Funds from operations (FFO): FFO is a non-GAAP financial measure and is defined as net income in accordance with IFRS, excluding (i) fair value adjustments on investment properties; (ii) gains (or losses) from sales of investment properties; (iii) amortization of tenant incentives; (iv) fair value adjustments, interest expense and other effects of redeemable units classified as liabilities; (v) acquisition costs expensed as a result of the purchase of a property being accounted for as a business combination; (vi) adjustment for amortization of deferred financing fees, which is included in non-cash financing costs and (vii) fair value adjustment on derivative instrument, after adjustments for equity accounted entities, joint ventures and non-controlling interests calculated to reflect FFO on the same basis as consolidated properties. Further discussion over FFO, including a reconciliation from net income, can be found in the Funds from Operations section on page 14 of the MD&A and in the tables below:

Consolidated

($000s)	Three-Months		Year Ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Net income for the year	**37,202**	44,769	**89,354**	56,311
Amortization of operating lease incentives	**1,941**	2,238	**7,561**	8,160
Fair value adjustment on investment properties	**(21,801)**	(9,330)	**(21,554)**	(19,370)
Depreciation on property and equipment	**209**	227	**1,350**	1,334
Stock based compensation expense	**(6)**	370	**841**	1,132
Non-cash financing (costs) recoveries	**(607)**	(668)	**(8,518)**	3,479
Gain on sale of asset	**(3)**	(24)	**(40)**	(151)
Deferred income taxes	**8,214**	5,288	**8,225**	4,684
Fair value adjustment on REIT units	**(2,852)**	(559)	**(16,360)**	25,748
FFO	**22,297**	42,311	**60,859**	81,327

Investment Properties

($000s)	Three-Months		Year Ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Divisional income for the year (1)	**31,399**	11,755	**48,097**	31,077
Fair value adjustment on investment properties	**(26,212)**	(7,374)	**(25,663)**	(10,850)
Amortization of operating lease incentives	**447**	410	**1,620**	1,624
Divisional FFO	**5,634**	4,791	**24,054**	21,851

(1) Refer to note 25 to the consolidated financial statements

REIT

($000s)	Three-Months		Year Ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Divisional income for the year (1)	**485**	10,019	**27,723**	43,710
Fair value adjustment on investment properties	**9,130**	(214)	**11,995**	(2,879)
Amortization of operating lease incentives	**962**	1,251	**3,725**	4,218
Divisional FFO	**10,577**	11,056	**43,443**	45,049

(1) Refer to note 25 to the consolidated financial statements

FFO per share: FFO per share is a non-GAAP financial ratio and is defined as FFO over basic weighted average common shares outstanding. Refer to the Funds From Operations Section on page 14 of the MD&A for further discussion.

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
Chief Executive Officer, Executive Chairman

Naomi Stefura, CA
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.

PricewaterhouseCoopers LLP
Stantec Tower, 10220 103 Avenue NW, Suite 2200, Edmonton, Alberta, Canada T5J 0K4
T: +1 780 441 6700, F: +1 780 441 6776

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

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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.

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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.