MELCOR

Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2023

(Unaudited, in thousands of Canadian dollars)

Condensed Interim Consolidated Statement of Income

Unaudited ($000s)	For the three months ended March 31, 2023	March 31, 2022
Revenue (note 7)	36,077	53,306
Cost of sales	(17,842)	(28,120)
Gross profit	18,235	25,186
General and administrative expense	(5,506)	(5,853)
Fair value adjustment on investment properties (note 5 and 13)	(2,484)	(2,522)
Adjustments related to REIT units (note 12 and 13)	777	(7,234)
Operating earnings	11,022	9,577
Interest income	699	145
Foreign exchange loss	(373)	(109)
Finance costs (note 8)	(9,321)	(4,494)
Net finance costs	(8,995)	(4,458)
Income before income taxes	2,027	5,119
Income tax recovery (expense)	126	(2,649)
Net income for the period	2,153	2,470
Income per share:		
Basic income per share	0.07	0.08
Diluted income per share	0.07	0.07

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Comprehensive Income (Loss)

Unaudited ($000s)	For the three months ended March 31, 2023	March 31, 2022
Net income for the period	2,153	2,470
Other comprehensive income		
Items that may be reclassified subsequently to net income:		
Currency translation differences	172	(2,481)
Comprehensive income (loss)	2,325	(11)

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Financial Position

Unaudited ($000s)	March 31, 2023	December 31, 2022
ASSETS		
Cash and cash equivalents	51,453	80,465
Restricted cash	1,759	2,761
Accounts receivable	10,211	12,487
Income taxes recoverable	5,987	3,889
Agreements receivable	86,033	97,232
Land inventory (note 4)	755,969	749,501
Investment properties (note 5 and 13)	1,125,263	1,124,783
Property and equipment	12,179	12,238
Other assets	59,384	57,836
Derivative financial assets (note 13)	4,000	6,358
Asset held for sale (note 5)	—	19,500
	2,112,238	2,167,050
LIABILITIES		
Accounts payable and accrued liabilities	39,917	53,213
Income taxes payable	—	336
Provision for land development costs	57,941	58,260
General debt (note 6)	705,035	740,365
Deferred income tax liabilities	63,897	64,650
REIT units (note 12 and 13)	69,557	71,890
	936,347	988,714
SHAREHOLDERS' EQUITY		
Share capital (note 9)	70,218	70,218
Contributed surplus	5,040	4,810
Accumulated other comprehensive income (AOCI)	29,770	29,598
Retained earnings	1,070,863	1,073,710
	1,175,891	1,178,336
	2,112,238	2,167,050

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Changes in Equity

Unaudited ($000's)	Equity attributable to Melcor's shareholders				
	Share capital	**Contributed surplus**	**AOCI**	**Retained earnings**	**Total equity**
Balance at January 1, 2023	**70,218**	**4,810**	**29,598**	**1,073,710**	**1,178,336**
Net income for the period	—	—	—	2,153	2,153
Cumulative translation adjustment	—	—	172	—	172
Transactions with equity holders					
Dividends	—	—	—	(5,000)	(5,000)
Employee share options					
Value of services recognized	—	230	—	—	230
Balance at March 31, 2023	**70,218**	**5,040**	**29,770**	**1,070,863**	**1,175,891**

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

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Cash Flows

	For the three months ended	
Unaudited ($000's)	**March 31, 2023**	March 31, 2022
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net income for the period	**2,153**	2,470
Non cash items:		
Amortization of tenant incentives	**2,320**	1,407
Depreciation of property and equipment	**145**	156
Stock based compensation expense	**230**	117
Non-cash finance costs	**2,778**	(1,472)
Straight-line rent adjustment	**(372)**	(374)
Fair value adjustment on investment properties (note 5 and 13)	**2,484**	2,522
Fair value adjustment on REIT units (note 12 and 13)	**(2,333)**	5,678
Deferred income taxes	**(732)**	(181)
	6,673	10,323
Agreements receivable	**11,199**	2,313
Development activities	**(4,495)**	(4,104)
Purchase of land inventory (note 4)	**(2,400)**	—
Payment of tenant lease incentives and direct leasing costs	**(4,995)**	(1,721)
Change in restricted cash	**—**	(1,305)
Operating assets and liabilities	**(11,054)**	(4,518)
	(5,072)	988
INVESTING ACTIVITIES		
Additions to investment properties (note 5)	**(3,706)**	(1,561)
Net proceeds from disposal of investment properties (note 5)	**1,229**	—
Net proceeds from disposal of asset held for sale	**18,025**	—
Change in restricted cash	**1,000**	—
Purchase of property and equipment	**(86)**	(114)
	16,462	(1,675)
FINANCING ACTIVITIES		
Revolving credit facilities	**(22,234)**	5,213
Proceeds from general debt	**1,030**	31,903
Repayment of general debt	**(14,173)**	(22,823)
Repurchase of REIT units (note 12)	**—**	(25)
Dividends paid	**(5,000)**	(4,596)
Common shares repurchased (note 9)	**—**	(1,926)
	(40,377)	7,746
FOREIGN EXCHANGE LOSS ON CASH HELD IN A FOREIGN CURRENCY	**(25)**	(607)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	**(29,012)**	6,452
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	**80,465**	59,920
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	**51,453**	66,372
Total income taxes paid	**3,045**	3,361
Total interest paid	**8,459**	6,247

See accompanying notes to these condensed interim consolidated financial statements.

(Unaudited – in $000s except per share, share and acre amounts)

1. DESCRIPTION OF THE BUSINESS

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

Melcor Developments Ltd. ("Melcor" or "we") is incorporated in Canada. The registered office is located at Suite 900, 10310 Jasper Avenue Edmonton, AB T5J 1Y8. We operate in Canada and the United States ("US"). Our shares are traded on the Toronto Stock Exchange under the symbol "MRD". As at March 31, 2023 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 May 10, 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".

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

2. BASIS OF PRESENTATION

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

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.

These condensed interim consolidated financial statements should be read in conjunction with our annual consolidated financial statements for the year ended December 31, 2022, which have been prepared in accordance with IFRS.

These condensed interim consolidated financial statements were approved for issue by the Board of Directors on May 10, 2023.

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

The accounting policies followed in these condensed interim consolidated financial statements are consistent with those of the previous financial year. There are no new or amended standards adopted during the quarter.

4. LAND INVENTORY

	March 31, 2023	December 31, 2022
Raw land held	**386,868**	384,681
Land under development	**194,853**	187,140
Developed land	**174,248**	177,680
	755,969	749,501

Land is recorded at the lower of cost and net realizable value.

During the three month period ended March 31, 2023, we purchased 40.00 acres of land in Leduc, Alberta at a cost of $2,400 for cash.

In 2022, we purchased 13.01 acres of land was in Buckeye, Arizona in the United States at a cost of $4,247 (USD$3,295) for cash during the year. No land was purchased during the comparative three month period ended March 31, 2022.

(Unaudited – in $000s except per share, share and acre amounts)

5. INVESTMENT PROPERTIES

Investment properties consists of the following:

	March 31, 2023	December 31, 2022
Investment properties	**1,056,037**	1,059,490
Properties under development	**69,226**	65,293
Total	**1,125,263**	1,124,783

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

Three months ended March 31, 2023	**Investment Properties**	**Properties under Development**	**Total**
Balance - beginning of period	1,059,490	65,293	**1,124,783**
Additions			
Direct leasing costs	226	95	**321**
Property improvements	190	—	**190**
Development costs	—	3,232	**3,232**
Capitalized borrowing costs	—	284	**284**
Disposals	(1,229)	—	**(1,229)**
Fair value adjustment on investment properties	(2,806)	322	**(2,484)**
Other adjustments	268	—	**268**
Foreign currency translation (included in OCI)	(102)	—	**(102)**
Balance - end of period	**1,056,037**	**69,226**	**1,125,263**

Year ended December 31, 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**
Development costs	—	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	(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**

In accordance with our policy we record our investment properties at fair value. Fair value adjustments on investment properties are primarily driven by changes in capitalization rates and stabilized net operating income ("NOI"). Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 13.

(Unaudited – in $000s except per share, share and acre amounts)

Disposals:

- During the three month period ended March 31, 2023, we disposed of three residential units in Arizona for cash price of $1,229 (US$906) (net of transaction costs).
- On February 1, 2023, the REIT disposed of an investment property classified as asset held for sale at year end for net proceeds of $19,025 including a $1,000 deposit held as restricted cash, resulting from a purchase price of $19,500 less transaction costs of $475 (including tenant incentives of $316 and straight line rent of $95). The price was settled in cash, excluding working capital adjustments. Proceeds from the sale were used to repay the outstanding principal balance on the mortgage of $8,727 with the remaining cash being used to reduce our borrowings on our credit facility.

Disposals in prior year ended December 31, 2022:

- We disposed of 117 residential units in Arizona for net sale price of $34,998 (US$26,145) net of transaction costs.

6. GENERAL DEBT

	March 31, 2023	December 31, 2022
Melcor - revolving credit facilities	**81,931**	96,839
REIT - revolving credit facility	**24,308**	31,634
Project specific financing	**23,619**	22,597
Secured vendor take back debt on land inventory	**5,717**	5,717
Debt on investment properties and golf course assets	**524,870**	539,110
REIT - convertible debentures	**44,590**	44,468
General debt	**705,035**	740,365

On February 10, 2023 the REIT entered in the fourth amendment to their revolving credit agreement with existing lenders (the “Credit Facility Amendment”). Under the terms of their revolving credit facility agreement the REIT maintains an available credit limit based on the lesser of the present value of discounted cashflows or 75% of the appraised value of specific investment properties to a maximum of $50,000 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 facility. The facility matures on June 1, 2024.

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

	Three months ended March 31, 2023	Year ended December 31, 2022
Balance - beginning of period	**22,597**	40,758
Cash movements		
Loan repayments	**—**	(50,351)
New project financing	**1,030**	31,811
Non-cash movements		
Foreign currency translation included in OCI	**(8)**	379
Balance - end of period	**23,619**	22,597

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

(Unaudited – in $000s except per share, share and acre amounts)

	Three months ended March 31, 2023	Year ended December 31, 2022
Balance - beginning of period	**5,717**	11,794
Cash movements		
Principal repayments		
Scheduled repayments	**—**	(6,077)
Balance - end of period	**5,717**	5,717

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

	Three months ended March 31, 2023	Year ended December 31, 2022
Balance - beginning of period	**539,110**	506,382
Cash movements		
Principal repayments		
Scheduled amortization on debt	**(4,546)**	(18,092)
Mortgage repayments	**(9,627)**	(26,285)
New mortgages	**—**	73,380
Non-cash movements		
Mortgage amendment	**—**	(893)
Deferred financing fees capitalized	**(269)**	(1,115)
Amortization of deferred financing fees	**271**	1,123
Change in derivative fair value swap	**—**	629
Foreign currency translation included in OCI	**(69)**	3,981
Balance - end of period	**524,870**	539,110

7. REVENUE

Total Revenues	**For the three months ended**	
	March 31, 2023	March 31, 2022
Revenue from contracts	**13,232**	27,043
Revenue from other sources	**22,845**	26,263
	36,077	53,306

Timing of contract revenue recognition	**For the three months ended**	
	March 31, 2023	March 31, 2022
At a point in time	**7,845**	22,147
Over time	**5,387**	4,896
	13,232	27,043

(Unaudited – in $000s except per share, share and acre amounts)

8. FINANCE COSTS

	For the three months ended	
	March 31, 2023	March 31, 2022
Interest on Melcor - revolving credit facilities	**1,415**	931
Interest on REIT - revolving credit facility	**542**	39
Interest on REIT - convertible debentures	**587**	888
Interest on general debt	**5,134**	4,591
Financing costs and bank charges	**324**	193
Gain on settlement of interest rate swap	**(61)**	—
Non cash financing costs (recoveries)	**2,778**	(1,472)
	10,719	5,170
Less: capitalized interest	**(1,398)**	(676)
	9,321	4,494

Finance costs paid during the period were $8,459 (2022 - $6,247). Non cash financing costs (recoveries) include debentures accretion expense, debentures amortized fees and fair value adjustment on derivatives.

9. SHARE CAPITAL

Issued and outstanding common shares at March 31, 2023 are 31,248,628 (December 31, 2022 – 31,248,628). During the three months ended March 31, 2023, there were no options exercised (Q1-2022 – 7,579).

On April 1, 2022 Melcor commenced a 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, which Melcor paid for shares repurchased under the plan, were the market price at the time of acquisition. On December 22, 2022, Melcor filled the NCIB by purchasing the final shares brining the total to the maximum 1,641,627 shares allowed. The NCIB expired on March 31, 2023.

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

During the three months ended March 31, 2023, no common shares were purchased for cancellation by Melcor pursuant to the NCIB (December 31, 2022 - 1,777,662 common shares purchased at a cost of $21,435).

10. SEGMENTED INFORMATION

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

External Revenues	For the three months ended	
	March 31, 2023	March 31, 2022
United States	**3,775**	3,908
Canada	**32,302**	49,398
Total	**36,077**	53,306

Total Assets		
As at	**March 31, 2023**	December 31, 2022
United States	**288,478**	291,635
Canada	**1,823,760**	1,875,415
Total	**2,112,238**	2,167,050

(Unaudited – in $000s except per share, share and acre amounts)

10. SEGMENTED INFORMATION (continued)

Divisional Analysis

Our divisions reported the following results:

For the three months ended March 31, 2023	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue	8,218	17	10,812	18,990	70	—	**38,107**	(2,030)	**36,077**
Cost of sales	(5,007)	—	(4,613)	(8,352)	(498)	—	**(18,470)**	628	**(17,842)**
Gross profit	3,211	17	6,199	10,638	(428)	—	**19,637**	(1,402)	**18,235**
General and administrative expense	(1,842)	(519)	(782)	(779)	(393)	(1,874)	**(6,189)**	683	**(5,506)**
Fair value adjustment on investment properties	—	322	(1,939)	(1,586)	—	—	**(3,203)**	719	**(2,484)**
Interest income	545	1	22	19	—	112	**699**	—	**699**
Segment earnings (loss)	1,914	(179)	3,500	8,292	(821)	(1,762)	**10,944**	—	**10,944**
Finance costs									**(9,321)**
Foreign exchange loss									**(373)**
Adjustments related to REIT units									**777**
Income before tax									**2,027**
Income tax recovery									**126**
Net income for the period									**2,153**

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

11. 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**	**March 31, 2023**
ASSETS				
Cash and cash equivalents	48,140	3,313	—	51,453
Restricted cash	1,759	—	—	1,759
Accounts receivable	9,197	2,590	(1,576)	10,211
Income taxes recoverable	5,987	—	—	5,987
Agreements receivable	86,033	—	—	86,033
Land inventory (note 4)	755,969	—	—	755,969
Investment properties (note 5 and 13)	462,215	671,149	(8,101)	1,125,263
Property and equipment	11,927	—	252	12,179
Other assets	23,805	29,562	6,017	59,384
Derivative financial instrument	1,036	2,964	—	4,000
Melcor's investment in REIT	163,901	—	(163,901)	—
	1,569,969	709,578	(167,309)	2,112,238
LIABILITIES				
Accounts payable and accrued liabilities	27,889	13,605	(1,577)	39,917
Provision for land development costs	57,941	—	—	57,941
General debt (note 6)	323,839	381,196	—	705,035
Deferred income tax liability	63,897	—	—	63,897
Class B LP units	—	86,269	(86,269)	—
Class C LP units	—	37,211	(37,211)	—
REIT units (note 12 and 13)	—	—	69,557	69,557
	473,566	518,281	(55,500)	936,347

($000s)	Melcor	REIT	Intercompany Eliminations	December 31, 2022
ASSETS				
Cash and cash equivalents	77,161	3,304	—	80,465
Restricted cash	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	97,232	—	—	97,232
Land inventory (note 4)	749,501	—	—	749,501
Investment properties (note 5 and 13)	461,433	672,010	(8,660)	1,124,783
Property and equipment	11,983	—	255	12,238
Other assets	22,132	29,128	6,576	57,836
Asset held for sale	—	19,500	—	19,500
Derivative financial instrument	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	39,993	14,861	(1,641)	53,213
Income taxes payable	336	—	—	336
Provision for land development costs	58,260	—	—	58,260
General debt (note 6)	340,624	399,741	—	740,365
Deferred income tax liability	64,650	—	—	64,650
Class B LP units	—	89,172	(89,172)	—
Class C LP units	—	37,798	(37,798)	—
REIT units (note 12 and 13)	—	—	71,890	71,890
	503,863	541,572	(56,721)	988,714

12. NON-CONTROLLING INTEREST IN MELCOR REIT

In accordance with our policy, we account for the remaining 44.6% publicly held interest in the REIT as a financial liability measured at fair value through profit or loss (“FVTPL”). As at March 31, 2023 the REIT units had a fair value of $69,557.

We recorded adjustments related to REIT units for the three months ended March 31, 2023 of $777 (March 31, 2022 - $7,234).

In the comparative period, the REIT had an active normal course issuer bid ("REIT NCIB") which commenced on April 1, 2021 and ended on March 31, 2022. This allowed the REIT to purchase up to 652,525 trust units for cancellation, representing approximately 5% of the REIT's issued and outstanding trust units. The trust units could be repurchased up to a maximum daily limit of 3,824. The price which the REIT paid for trust units repurchased under the plan was the market price at the time of acquisition.

Prior to the REIT NCIB expiring on March 31, 2022, 3,824 units was purchased for cancellation at a cost of $25, which was recorded as a reduction in the balance of REIT units on the consolidated statement of financial position in the comparative period. The REIT NCIB was not renewed after it expired.

(Unaudited – in $000s except per share, share and acre amounts)

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

	For the three months ended	
	March 31, 2023	March 31, 2022
Fair value adjustment on REIT units (note 13)	**2,333**	(5,678)
Distributions to REIT unitholders	**(1,556)**	(1,556)
Adjustments related to REIT units	**777**	(7,234)

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

As at	**March 31, 2023**	December 31, 2022
Assets	**709,578**	730,769
Liabilities (excluding Class B LP units)	**432,012**	452,400
Net assets	**277,566**	278,369
Cost of NCI	**103,934**	103,934
Fair value of NCI	**69,557**	71,890

	For the three months ended	
	March 31, 2023	March 31, 2022
Rental revenue	**18,990**	18,965
Net income (loss) and comprehensive income (loss)	**3,656**	(6,538)
Cash flows from operating activities	**1,882**	4,293
Cash flows from (used in) investing activities	**18,834**	(217)
Cash flows used in financing activities, before distributions to REIT unitholders	**(19,151)**	(1,903)
Cash flows used in financing activities - cash distributions to REIT unitholders	**(1,556)**	(1,556)
Net increase in cash and cash equivalents	**9**	617

13. FAIR VALUE MEASUREMENT

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

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

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

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

(Unaudited – in $000s except per share, share and acre amounts)

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

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

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

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

					March 31, 2023	December 31, 2022	
	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**	**1,125,263**	**—**	**1,125,263**	**1,125,263**	1,124,783	1,124,783
Asset held for sale	**Level 3**	**—**	**—**	**—**	**—**	19,500	19,500
Financial liabilities							
General debt, excluding convertible debentures and derivative financial liability	**Level 3**	**—**	**660,445**	**660,445**	**624,004**	695,897	642,460
Convertible debentures	**Level 2**	**—**	**44,286**	**44,286**	**42,600**	44,056	41,011
Derivative financial liabilities							
Conversion features on convertible debentures	**Level 3**	**304**	**—**	**304**	**304**	412	412
REIT units	**Level 1**	**69,557**	**—**	**69,557**	**69,557**	71,890	71,890
Derivative financial assets							
Interest rate swaps	**Level 3**	**4,000**	**—**	**4,000**	**4,000**	6,358	6,358

Investment properties

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

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

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

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

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

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

(Unaudited – in $000s except per share, share and acre amounts)

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

Melcor's executive management team is responsible for determining fair value measurements on a quarterly basis, including verifying all major inputs included in the valuation and reviewing the results. Melcor's management, along with the Audit Committee, discuss the valuation process and key inputs on a quarterly basis. At least once every two years, the valuations are performed by qualified external 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 are valued by Melcor's internal valuation team. For the three months ended March 31, 2023 8 legal phases included in investment properties (of 94 legal phases) with a fair value of $70,475 were valued by external valuation professionals (year ended December 31, 2022 - 64 legal phases included in investment properties (of 95 legal phases) with a fair value of $806,468). Valuations performed during the period resulted in net fair value losses of $2,484 (December 31, 2022 - net fair value gains of $21,554).

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

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

Weighted average annual stabilized net operating income for investment properties as at March 31, 2023 is $1,452 (December 31, 2022 - $1,448) per property. Other significant valuation metrics and unobservable inputs are set out in the following table. Fair values are most sensitive to changes in capitalization rates.

	Investment Properties			**Properties under Development**		
March 31, 2023	**Min**	**Max**	**Weighted Average**	**Min**	**Max**	**Weighted Average**
Capitalization rate	**5.25%**	**10.00%**	**6.91%**	**6.00%**	**6.00%**	**6.00%**
Terminal capitalization rate	**5.75%**	**8.75%**	**7.06%**	**6.25%**	**6.25%**	**6.25%**
Discount rate	**6.75%**	**9.75%**	**7.95%**	**7.25%**	**7.25%**	**7.25%**

	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%

An increase in capitalization rates by 50 basis points would decrease the fair value and carrying amount of investment properties by $64,800 (December 31, 2022 - $66,000). A decrease in capitalization rates by 50 basis points would increase the fair value and carrying amount of investment properties by $74,900 (December 31, 2022 - $76,300).

General debt, excluding derivative financial liabilities

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

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

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

Derivative financial assets and liabilities

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

The fair value of the interest rate swaps are calculated as the net present value of the future cash flows expected to arise on the variable and fixed portion, determined using applicable yield curves at the measurement date. As at March 31, 2023, the fair value of interest rate swap contracts was $4,000 (December 31, 2022 - $6,358).

The significant assumptions used in the fair value measurement of the conversion features on the REIT convertible debentures are volatility and credit spread. As at March 31, 2023 the fair value of the conversion features on our convertible debentures was $304 liability (December 31, 2022 - $412).

REIT units

REIT units are remeasured to fair value on a recurring basis and categorized as level 1 in the fair value hierarchy. The units are fair valued based on the trading price of the REIT units at the period end date. At March 31, 2023 the fair value of the REIT units was $69,557, resulting in a fair value gain during the three months ended of $2,333 (March 31, 2022 - loss of $5,678) in the statement of income and comprehensive income for the period ended ended March 31, 2023 (note 12).

14. RISK MANAGEMENT

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

a. Credit Risk

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

Accounts receivables have historically been significantly low risk due to their individual immaterial balances, the nature of the party they are due from (including joint venture participants under management by Melcor), and overall lack of historical write offs. At this time, based on management's best estimate of the current economic outlook, management has assessed and recorded the current expected credit loss at $291 (December 31, 2022 - $284).

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.

b. Liquidity Risk

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

(Unaudited – in $000s except per share, share and acre amounts)

c. *Interest Rate 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 $2,399 (December 31, 2022 - $2,739). We are not subject to other significant market risks pertaining to our financial instruments.

15. EVENTS AFTER THE REPORTING PERIOD

Distributions on REIT trust units

On April 14, 2023, the REIT declared the following distributions:

Month	Record Date	Distribution Date	Distribution Amount
April 2023	April 28, 2023	May 15, 2023	$0.04 per unit
May 2023	May 31, 2023	June 15, 2023	$0.04 per unit
June 2023	June 30, 2023	July 14, 2023	$0.04 per unit

Dividends declared

On May 10, 2023 our board of directors declared a dividend of $0.16 per share payable on June 30, 2023 to shareholders of record on June 15, 2023.