MELCOR

Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2023

(Unaudited, in thousands of Canadian dollars)

Condensed Interim Consolidated Statement of Income

Unaudited ($000s)	For the three months ended September 30, 2023	For the three months ended September 30, 2022	For the nine months ended September 30, 2023	For the nine months ended September 30, 2022
Revenue (note 8)	**88,781**	61,136	**190,105**	165,486
Cost of sales	**(48,141)**	(30,981)	**(97,362)**	(84,290)
Gross profit	**40,640**	30,155	**92,743**	81,196
General and administrative expense	**(5,933)**	(6,329)	**(17,146)**	(17,650)
Fair value adjustment on investment properties (note 5 and 14)	**5,736**	3,070	**(1,528)**	(247)
Adjustments related to REIT units (note 13 and 14)	**259**	3,630	**8,037**	8,323
Gain on sale of assets	**41**	29	**48**	37
Operating earnings	**40,743**	30,555	**82,154**	71,659
Interest income	**478**	707	**1,729**	1,090
Foreign exchange gain (loss)	**21**	493	**(378)**	617
Finance costs (note 9)	**(5,657)**	(4,065)	**(19,981)**	(11,101)
Net finance costs	**(5,158)**	(2,865)	**(18,630)**	(9,394)
Income before income taxes	**35,585**	27,690	**63,524**	62,265
Income tax expense	**(6,702)**	(3,916)	**(10,855)**	(10,113)
Net income for the period	**28,883**	23,774	**52,669**	52,152
Income per share:				
Basic income per share	**0.94**	0.73	**1.70**	1.59
Diluted income per share	**0.94**	0.73	**1.69**	1.59

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Comprehensive Income

Unaudited ($000s)	For the three months ended September 30, 2023	For the three months ended September 30, 2022	For the nine months ended September 30, 2023	For the nine months ended September 30, 2022
Net income for the period	**28,883**	23,774	**52,669**	52,152
Other comprehensive income				
Items that may be reclassified subsequently to net income:				
Currency translation differences	**3,812**	12,648	**(228)**	16,294
Comprehensive income	**32,695**	36,422	**52,441**	68,446

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Financial Position

Unaudited ($000s)	September 30, 2023	December 31, 2022
ASSETS		
Cash and cash equivalents	**62,379**	80,465
Restricted cash	**1,758**	2,761
Accounts receivable	**7,449**	12,487
Income taxes recoverable	**2,213**	3,889
Agreements receivable	**84,099**	97,232
Land inventory (note 4)	**762,156**	749,501
Investment properties (note 5 and 14)	**1,106,767**	1,124,783
Property and equipment	**11,806**	12,238
Other assets	**59,793**	57,836
Derivative financial assets (note 14)	**9,059**	6,358
Assets held for sale (note 6 and 14)	**33,775**	19,500
	2,141,254	2,167,050
LIABILITIES		
Accounts payable and accrued liabilities	**54,673**	53,213
Income taxes payable	**1,484**	336
Provision for land development costs	**56,603**	58,260
General debt (note 7)	**696,161**	740,365
Deferred income tax liabilities	**63,581**	64,650
REIT units (note 13 and 14)	**59,186**	71,890
	931,688	988,714
SHAREHOLDERS' EQUITY		
Share capital (note 10)	**68,847**	70,218
Contributed surplus	**5,581**	4,810
Accumulated other comprehensive income (AOCI)	**29,370**	29,598
Retained earnings	**1,105,768**	1,073,710
	1,209,566	1,178,336
	2,141,254	2,167,050

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Changes in Equity

	Equity attributable to Melcor's shareholders				
Unaudited ($000's)	**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	—	—	—	52,669	52,669
Cumulative translation adjustment	—	—	(228)	—	(228)
Transactions with equity holders					
Dividends	—	—	—	(14,852)	(14,852)
Share repurchase (note 10)	(1,371)	—	—	(5,759)	(7,130)
Employee share options					
Value of services recognized	—	771	—	—	771
Balance at September 30, 2023	**68,847**	**5,581**	**29,370**	**1,105,768**	**1,209,566**

	Equity attributable to Melcor's shareholders				
Unaudited ($000's)	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	—	—	—	52,152	52,152
Cumulative translation adjustment	—	—	16,294	—	16,294
Transactions with equity holders					
Dividends	—	—	—	(13,977)	(13,977)
Share repurchase	(3,352)	—	—	(9,980)	(13,332)
Employee share options					
Value of services recognized	—	847	—	—	847
Share issuance	1,535	(131)	—	—	1,404
Balance at September 30, 2022	71,487	5,443	34,152	1,048,775	1,159,857

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Cash Flows

Unaudited ($000's)	For the three months ended September 30, 2023	September 30, 2022	For the nine months ended September 30, 2023	September 30, 2022
CASH FLOWS FROM (USED IN)				
OPERATING ACTIVITIES				
Net income for the period	**28,883**	23,774	**52,669**	52,152
Non cash items:				
Amortization of tenant incentives	**2,105**	2,738	**6,374**	5,620
Depreciation of property and equipment	**491**	533	**1,062**	1,141
Stock based compensation expense	**293**	514	**771**	847
Non-cash finance costs	**(1,924)**	(2,619)	**(1,509)**	(7,911)
Straight-line rent adjustment	**252**	(1,408)	**(224)**	(2,105)
Fair value adjustment on investment properties (note 5 and 14)	**(5,736)**	(3,070)	**1,528**	247
Fair value adjustment on REIT units (note 13 and 14)	**(1,815)**	(5,703)	**(12,704)**	(13,508)
Gain on sale of assets	**(41)**	(29)	**(48)**	(37)
Deferred income taxes	**160**	(126)	**(1,250)**	11
	22,668	14,604	**46,669**	36,457
Agreements receivable	**(1,938)**	17,579	**13,133**	27,672
Development activities	**1,246**	(26,863)	**(12,896)**	(31,403)
Purchase of land inventory (note 4)	**—**	—	**(4,800)**	(4,247)
Payment of tenant lease incentives and direct leasing costs	**(2,302)**	(5,341)	**(7,959)**	(9,942)
Change in restricted cash	**—**	(403)	**—**	(1,899)
Operating assets and liabilities	**15,444**	9,058	**6,833**	(9,161)
	35,118	8,634	**40,980**	7,477
INVESTING ACTIVITIES				
Additions to investment properties (note 5)	**(6,119)**	(6,744)	**(17,465)**	(11,209)
Net proceeds from disposal of investment properties (note 5)	**—**	1,309	**6,397**	3,916
Net proceeds from disposal of asset held for sale (note 6)	**—**	—	**18,025**	—
Change in restricted cash	**—**	—	**1,000**	—
Purchase of property and equipment	**(388)**	(251)	**(646)**	(662)
Proceeds on disposal of property and equipment	**57**	57	**65**	70
	(6,450)	(5,629)	**7,376**	(7,885)
FINANCING ACTIVITIES				
Revolving credit facilities	**(310)**	27,989	**1,458**	55,711
Proceeds from general debt	**5,227**	27,077	**24,440**	76,817
Repayment of general debt	**(9,236)**	(36,705)	**(70,509)**	(84,929)
Repurchase of REIT units (note 13)	**—**	—	**—**	(25)
Dividends paid	**(4,902)**	(4,811)	**(14,852)**	(13,977)
Common shares repurchased (note 10)	**(3,462)**	(8,070)	**(7,130)**	(13,332)
Share capital issued	**—**	1,068	**—**	1,404
	(12,683)	6,548	**(66,593)**	21,669
FOREIGN EXCHANGE LOSS ON CASH HELD IN A FOREIGN CURRENCY	**281**	736	**151**	1,272
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	**16,266**	10,289	**(18,086)**	22,533
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	**46,113**	72,164	**80,465**	59,920
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	**62,379**	82,453	**62,379**	82,453
Total income taxes paid	**3,777**	9,105	**9,806**	20,857
Total interest paid	**8,711**	6,222	**26,000**	18,952

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 September 30, 2023 Melton Holdings Ltd. holds approximately 51.2% of the outstanding shares and pursuant to IAS 24, Related party disclosures, is the ultimate controlling shareholder of Melcor.

As at November 8, 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 November 8, 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

	September 30, 2023	December 31, 2022
Raw land held	**382,567**	384,681
Land under development	**221,997**	187,140
Developed land	**157,592**	177,680
	762,156	749,501

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

During the nine month period ended September 30, 2023, we purchased 40.00 acres of land in Leduc, Alberta at a cost of $2,400 for cash and another 80.00 acres of land in Acheson, Alberta at a cost of $2,400 for cash.

During the nine month period ended September 30, 2022, we purchased 13.01 acres of land in Buckeye, Arizona in the United States at a cost of $4,247 (USD$3,296) for cash.

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

5. INVESTMENT PROPERTIES

Investment properties consists of the following:

	September 30, 2023	December 31, 2022
Investment properties	**1,025,356**	1,059,490
Properties under development	**81,411**	65,293
Total	**1,106,767**	1,124,783

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

			Nine months ended September 30, 2023
	Investment Properties	**Properties under Development**	**Total**
Balance - beginning of period	1,059,490	65,293	**1,124,783**
Additions			
Transfer from land inventory	—	3,104	**3,104**
Direct leasing costs	1,146	251	**1,397**
Property improvements	2,765	—	**2,765**
Development costs	—	14,106	**14,106**
Capitalized borrowing costs	—	594	**594**
Disposals	(6,397)	—	**(6,397)**
Transfers	7,506	(7,506)	**—**
Fair value adjustment on investment properties	(7,097)	5,569	**(1,528)**
Investment properties classified as held for sale (note 6)	(32,132)	—	**(32,132)**
Other adjustments	287	—	**287**
Foreign currency translation (included in OCI)	(212)	—	**(212)**
Balance - end of period	**1,025,356**	**81,411**	**1,106,767**

			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 (note 6)	(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**

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

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 14.

Disposals in the nine month period ended September 30, 2023:

- We disposed of seven residential units in Arizona for net sale price of $3,126 (US$2,316) net of transaction costs.
- We also disposed of an investment property in Lethbridge for net sale price of $3,271 (net of transaction costs).

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. ASSETS HELD FOR SALE

As at September 30, 2023, the REIT classified three retail properties as assets held for sale with a fair value of $33,775 (including investment property of $32,132, tenant incentives of $1,370 and straight-line rent of $273). As at September 30, 2023 management has listed these assets for sale with the intention to sell the properties.

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 at year end), resulting from a purchase price of $19,500 less transaction costs of $475. This property was classified as asset held for sale at year end with a fair value of $19,500 (including investment property of $19,089, 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.

7. GENERAL DEBT

	September 30, 2023	December 31, 2022
Melcor - revolving credit facilities	**95,370**	96,839
REIT - revolving credit facility	**34,561**	31,634
Project specific financing	**9,603**	22,597
Secured vendor take back debt on land inventory	**—**	5,717
Debt on investment properties and golf course assets	**511,588**	539,110
REIT - convertible debentures	**45,039**	44,468
General debt	**696,161**	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.

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

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

	Nine months ended September 30, 2023	Year ended December 31, 2022
Balance - beginning of period	**22,597**	40,758
Cash movements		
Loan repayments	**(14,882)**	(50,351)
New project financing	**1,950**	31,811
Non-cash movements		
Foreign currency translation included in OCI	**(62)**	379
Balance - end of period	**9,603**	22,597

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

	Nine months ended September 30, 2023	Year ended December 31, 2022
Balance - beginning of period	**5,717**	11,794
Cash movements		
Principal repayments		
Scheduled repayments	**(5,717)**	(6,077)
Balance - end of period	**—**	5,717

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

	Nine months ended September 30, 2023	Year ended December 31, 2022
Balance - beginning of period	**539,110**	506,382
Cash movements		
Principal repayments		
Scheduled amortization on debt	**(14,468)**	(18,092)
Mortgage repayments	**(35,442)**	(26,285)
New mortgages	**22,490**	73,380
Non-cash movements		
Mortgage amendment	**—**	(893)
Deferred financing fees capitalized	**(780)**	(1,115)
Amortization of deferred financing fees	**806**	1,123
Change in derivative fair value swap	**—**	629
Foreign currency translation included in OCI	**(128)**	3,981
Balance - end of period	**511,588**	539,110

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

8. REVENUE

Total Revenues	For the three months ended		For the nine months ended	
	September 30, 2023	September 30, 2022	**September 30, 2023**	September 30, 2022
Revenue from contracts	**59,527**	36,910	**114,231**	96,070
Revenue from other sources	**29,254**	24,226	**75,874**	69,416
	88,781	61,136	**190,105**	165,486

Timing of contract revenue recognition	For the three months ended		For the nine months ended	
	September 30, 2023	September 30, 2022	**September 30, 2023**	September 30, 2022
At a point in time	**53,466**	32,355	**97,882**	80,892
Over time	**6,061**	4,555	**16,349**	15,178
	59,527	36,910	**114,231**	96,070

9. FINANCE COSTS

	For the three months ended		For the nine months ended	
	September 30, 2023	September 30, 2022	**September 30, 2023**	September 30, 2022
Interest on Melcor - revolving credit facilities	**2,094**	1,492	**5,283**	3,512
Interest on REIT - revolving credit facility	**749**	89	**1,850**	166
Interest on REIT - convertible debentures	**587**	888	**1,760**	2,664
Interest on general debt	**4,736**	5,025	**14,304**	14,286
Financing costs and bank charges	**370**	289	**1,556**	989
Gain on settlement of interest rate swap	**(147)**	(172)	**(14)**	(172)
Non cash financing costs (recoveries)	**(1,924)**	(2,619)	**(1,509)**	(7,911)
	6,465	4,992	**23,230**	13,534
Less: capitalized interest	**(808)**	(927)	**(3,249)**	(2,433)
	5,657	4,065	**19,981**	11,101

Finance costs paid during the nine months ended September 30, 2023 were $26,000 (2022 - $18,952). Non cash financing costs (recoveries) include debentures accretion expense, debentures amortized fees and fair value adjustment on derivatives.

10. SHARE CAPITAL

Issued and outstanding common shares at September 30, 2023 are 30,622,799 (December 31, 2022 – 31,248,628 shares). During the nine months ended September 30, 2023, there were no options exercised (Q3 2022 – 69,200 options).

On June 7, 2023 Melcor commenced a Normal Course Issuer (NCIB) which allows us to purchase up to 1,562,431 shares for cancellation, representing approximately 5% of the issued and outstanding shares up to a maximum daily limit of 1,617 shares unless acquired under a block purchase exception. The price that Melcor pays for shares repurchased under the plan is the market price at the time of acquisition. The NCIB expires on June 6, 2024.

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 nine months ended September 30, 2023, 625,829 shares were purchased for cancellation by Melcor pursuant to the NCIB at a cost of $7,130 (December 31, 2022 - 1,777,662 shares purchased at a cost of $21,435). Share capital was reduced by $1,371 and retained earnings was reduced by $5,759.

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

11. SEGMENTED INFORMATION

Geographic Analysis

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

External Revenues	**For the three months ended**		**For the nine months ended**	
	September 30, 2023	September 30, 2022	**September 30, 2023**	September 30, 2022
United States	**21,018**	3,947	**44,314**	11,797
Canada	**67,763**	57,189	**145,791**	153,689
Total	**88,781**	61,136	**190,105**	165,486

Total Assets

As at	**September 30, 2023**	December 31, 2022
United States	**286,522**	291,635
Canada	**1,854,732**	1,875,415
Total	**2,141,254**	2,167,050

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

11. SEGMENTED INFORMATION (continued)

Divisional Analysis

Our divisions reported the following results:

For the three months ended September 30, 2023	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue	64,028	7,920	10,013	18,285	4,948	—	**105,194**	(16,413)	**88,781**
Cost of sales	(37,096)	(7,900)	(4,606)	(7,371)	(2,746)	—	**(59,719)**	11,578	**(48,141)**
Gross profit	26,932	20	5,407	10,914	2,202	—	**45,475**	(4,835)	**40,640**
General and administrative expense	(2,004)	(513)	(654)	(779)	(837)	(1,970)	**(6,757)**	824	**(5,933)**
Fair value adjustment on investment properties	—	890	(216)	1,051	—	—	**1,725**	4,011	**5,736**
Gain on sale of assets	—	—	—	—	41	—	**41**	—	**41**
Interest income	408	9	29	16	—	16	**478**	—	**478**
Segment earnings (loss)	25,336	406	4,566	11,202	1,406	(1,954)	**40,962**	—	**40,962**
Finance costs									**(5,657)**
Foreign exchange gain									**21**
Adjustments related to REIT units									**259**
Income before tax									**35,585**
Income tax expense									**(6,702)**
Net income for the period									**28,883**

For the three months ended September 30, 2022	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue	28,411	3,310	11,593	18,189	4,857	—	**66,360**	(5,224)	**61,136**
Cost of sales	(17,211)	(3,200)	(4,372)	(7,307)	(2,644)	—	**(34,734)**	3,753	**(30,981)**
Gross profit	11,200	110	7,221	10,882	2,213	—	**31,626**	(1,471)	**30,155**
General and administrative expense	(1,942)	(465)	(505)	(783)	(845)	(2,620)	**(7,160)**	831	**(6,329)**
Fair value adjustment on investment properties	—	356	(4,263)	6,337	—	—	**2,430**	640	**3,070**
Gain on sale of assets	—	—	—	—	29	—	**29**	—	**29**
Interest income	661	2	8	7	1	28	**707**	—	**707**
Segment earnings (loss)	9,919	3	2,461	16,443	1,398	(2,592)	**27,632**	—	**27,632**
Finance costs									**(4,065)**
Foreign exchange gain									**493**
Adjustments related to REIT units									**3,630**
Income before tax									**27,690**
Income tax expense									**(3,916)**
Net income for the period									**23,774**

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

11. SEGMENTED INFORMATION (continued)

For the nine months ended September 30, 2023	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue	105,239	7,986	31,585	55,398	10,357	—	**210,565**	(20,460)	**190,105**
Cost of sales	(60,068)	(7,900)	(13,532)	(23,233)	(5,422)	—	**(110,155)**	12,793	**(97,362)**
Gross Profit	45,171	86	18,053	32,165	4,935	—	**100,410**	(7,667)	**92,743**
General and administrative expense	(5,641)	(1,543)	(2,237)	(2,294)	(2,166)	(5,622)	**(19,503)**	2,357	**(17,146)**
Fair value adjustment on investment properties	—	2,251	(724)	(8,365)	—	—	**(6,838)**	5,310	**(1,528)**
Gain on sale of assets	—	—	—	—	48	—	**48**	—	**48**
Interest Income	1,447	18	72	46	5	141	**1,729**	—	**1,729**
Segment earnings (loss)	40,977	812	15,164	21,552	2,822	(5,481)	**75,846**	—	**75,846**
Finance costs									**(19,981)**
Foreign exchange loss									**(378)**
Adjustments related to REIT units									**8,037**
Income before tax									**63,524**
Income tax expense									**(10,855)**
Net Income for the period									**52,669**

For the nine months ended September 30, 2022	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue	74,662	7,124	32,156	55,308	9,619	—	**178,869**	(13,383)	**165,486**
Cost of sales	(45,459)	(6,900)	(12,722)	(22,846)	(5,021)	—	**(92,948)**	8,658	**(84,290)**
Gross profit	29,203	224	19,434	32,462	4,598	—	**85,921**	(4,725)	**81,196**
General and administrative expense	(5,586)	(1,664)	(2,201)	(2,381)	(2,070)	(6,072)	**(19,974)**	2,324	**(17,650)**
Fair value adjustment on investment properties	—	766	(549)	(2,865)	—	—	**(2,648)**	2,401	**(247)**
Gain on sale of assets	—	—	—	—	37	—	**37**	—	**37**
Interest income	973	2	14	22	2	77	**1,090**	—	**1,090**
Segment earnings (loss)	24,590	(672)	16,698	27,238	2,567	(5,995)	**64,426**	—	**64,426**
Finance costs									**(11,101)**
Foreign exchange gain									**617**
Adjustments related to REIT units									**8,323**
Income before income taxes									**62,265**
Income tax expense									**(10,113)**
Net income for the period									**52,152**

12. 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	September 30, 2023
ASSETS				
Cash and cash equivalents	59,121	3,258	—	62,379
Restricted cash	1,758	—	—	1,758
Accounts receivable	7,349	1,805	(1,705)	7,449
Income taxes recoverable	2,213	—	—	2,213
Agreements receivable	84,099	—	—	84,099
Land inventory (note 4)	762,156	—	—	762,156
Investment properties (note 5 and 14)	478,593	635,189	(7,015)	1,106,767
Property and equipment	11,559	—	247	11,806
Other assets	24,118	30,746	4,929	59,793
Assets held for sale	—	33,775	—	33,775
Derivative financial instrument	4,338	4,721	—	9,059
Melcor's investment in REIT	135,818	—	(135,818)	—
	1,571,122	709,494	(139,362)	2,141,254
LIABILITIES				
Accounts payable and accrued liabilities	40,143	16,234	(1,704)	54,673
Income taxes payable	1,484	—	—	1,484
Provision for land development costs	56,603	—	—	56,603
General debt (note 7)	300,757	395,404	—	696,161
Deferred income tax liability	63,581	—	—	63,581
Class B LP units	—	73,369	(73,369)	—
Class C LP units	—	22,028	(22,028)	—
REIT units (note 13 and 14)	—	—	59,186	59,186
	462,568	507,035	(37,915)	931,688

12. SUPPLEMENTAL BALANCE SHEET INFORMATION (continued)

($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 14)	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 (note 6 and 14)	—	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 7)	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 13 and 14)	—	—	71,890	71,890
	503,863	541,572	(56,721)	988,714

13. 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 September 30, 2023 the REIT units had a fair value of $59,186 (December 31, 2022 - $71,890).

We recorded adjustments related to REIT units for the three and nine months ended September 30, 2023 of $259 and $8,037 (September 30, 2022 - $3,630 and $8,323).

In 2022, 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		For the nine months ended	
	September 30, 2023	September 30, 2022	**September 30, 2023**	September 30, 2022
Fair value adjustment on REIT units (note 14)	**1,815**	5,703	**12,704**	13,508
Distributions to REIT unitholders	**(1,556)**	(2,073)	**(4,667)**	(5,185)
Adjustments related to REIT units	**259**	3,630	**8,037**	8,323

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	**September 30, 2023**	December 31, 2022
Assets	**709,494**	730,769
Liabilities (excluding Class B LP units)	**433,666**	452,400
Net assets	**275,828**	278,369
Cost of NCI	**103,934**	103,934
Fair value of NCI	**59,186**	71,890

	For the three months ended		For the nine months ended	
	September 30, 2023	September 30, 2022	**September 30, 2023**	September 30, 2022
Rental revenue	**18,285**	18,189	**55,398**	55,308
Net income and comprehensive income	**7,075**	19,151	**17,929**	30,672
Cash flows from operating activities	**3,827**	819	**8,796**	7,542
Cash flows from (used in) investing activities	**(1,905)**	(782)	**16,439**	(1,699)
Cash flows used in financing activities, before distributions to REIT unitholders	**(288)**	(322)	**(20,614)**	(5,720)
Cash flows used in financing activities - cash distributions to REIT unitholders	**(1,556)**	(1,555)	**(4,667)**	(4,667)
Net decrease in cash and cash equivalents	**78**	(1,840)	**(46)**	(4,544)

14. 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).

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

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

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

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

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

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

				September 30, 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**	**1,106,767**	**—**	**1,106,767**	**1,106,767**	1,124,783	1,124,783
Assets held for sale	**Level 3**	**33,775**	**—**	**33,775**	**33,775**	19,500	19,500
Financial liabilities							
General debt, excluding convertible debentures and derivative financial liability	**Level 3**	**—**	**651,122**	**651,122**	**595,641**	695,897	642,460
Convertible debentures	**Level 2**	**—**	**44,754**	**44,754**	**40,655**	44,056	41,011
Derivative financial liabilities							
Conversion features on convertible debentures	**Level 3**	**285**	**—**	**285**	**285**	412	412
REIT units	**Level 1**	**59,186**	**—**	**59,186**	**59,186**	71,890	71,890
Derivative financial assets							
Interest rate swaps	**Level 3**	**9,059**	**—**	**9,059**	**9,059**	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.

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

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

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

Melcor's executive management team is responsible for determining fair value measurements on a quarterly basis, including verifying all major inputs included in the valuation and reviewing the results. Melcor's management, along with the Audit Committee, discuss the valuation process and key inputs on a quarterly basis. At least once every two years, the valuations are performed by qualified external 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 nine months ended September 30, 2023, 22 legal phases included in investment properties (of 94 legal phases) with a fair value of $253,050 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 $1,528 (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 September 30, 2023 is $1,477 (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**		
September 30, 2023	**Min**	**Max**	**Weighted Average**	**Min**	**Max**	**Weighted Average**
Capitalization rate	**4.88%**	**10.00%**	**6.93%**	**6.00%**	**6.25%**	**6.15%**
Terminal capitalization rate	**5.75%**	**8.75%**	**7.07%**	**6.25%**	**6.50%**	**6.40%**
Discount rate	**6.75%**	**9.75%**	**7.95%**	**7.25%**	**7.50%**	**7.36%**

	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 $64,500 (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 $74,500 (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 September 30, 2023, the fair value of interest rate swap contracts was $9,059 (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 September 30, 2023 the fair value of the conversion features on our convertible debentures was $285 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 September 30, 2023 the fair value of the REIT units was $59,186, resulting in a fair value gain during the nine months ended of $12,704 (September 30, 2022 - gain of $13,508) in the statement of income and comprehensive income for the period ended ended September 30, 2023 (note 13).

15. 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 $316 (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.

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 $2,636 (December 31, 2022 - $2,739). We are not subject to other significant market risks pertaining to our financial instruments.

16. EVENTS AFTER THE REPORTING PERIOD

Distributions on REIT trust units

On October 16, 2023, we declared a distribution of $0.04 per unit payable on November 15, 2023 to unitholders on record on October 31, 2023.

Dividends declared

On November 8, 2023 our board of directors declared a dividend of $0.16 per share payable on December 29, 2023 to shareholders of record on December 15, 2023.