

## 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 Operating Officer, Chief Financial Officer

Edmonton, Alberta  
March 13, 2024



## Independent auditor's report

To the Shareholders of Melcor Developments Ltd.

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### 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, 2023 and 2022, 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 Accounting Standards).

#### What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of income for the years ended December 31, 2023 and 2022;
- the consolidated statements of comprehensive income for the years ended December 31, 2023 and 2022;
- the consolidated statements of financial position as at December 31, 2023 and 2022;
- the consolidated statements of changes in equity for the years ended December 31, 2023 and 2022;
- the consolidated statements of cash flows for the years ended December 31, 2023 and 2022; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

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### 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.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



## 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, 2023. 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 – Material accounting policies, note 4 – Critical accounting estimates, note 10 – Investment properties and note 29 – 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, 2023, these assets were valued at \$1,085 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 performance of the property, as applicable.



Investment properties were valued by the Company's internal valuation team as at December 31, 2023 of which 36 investment properties (of 93 legal phases valued) with a fair value of \$389 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.

- 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.

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### 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.

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### **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 Accounting Standards, 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.

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### **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 13, 2024

# MELCOR DEVELOPMENTS LTD.

Consolidated Financial Statements

December 31, 2023



# Consolidated Statements of Income

For the years ended December 31 (\$000s)	2023	2022
Revenue (note 21)	315,239	241,747
Cost of sales (note 21)	(172,887)	(123,484)
Gross profit	142,352	118,263
General and administrative expense (note 21)	(22,948)	(23,022)
Fair value adjustment on investment properties (note 10 and 29)	(24,456)	21,554
Adjustments related to REIT units (note 26)	11,871	10,138
Gain on sale of assets	51	40
Operating earnings	106,870	126,973
Interest income	3,210	1,614
Foreign exchange gain	97	1,109
Finance costs (note 20)	(34,400)	(17,278)
Net finance costs	(31,093)	(14,555)
Income before income taxes	75,777	112,418
Income tax expense (note 22)	(12,797)	(23,064)
Net income for the year	62,980	89,354
Earnings per share attributable to Melcor's shareholders (note 17):		
Basic earnings per share	2.04	2.75
Diluted earnings per share	2.03	2.74

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

<b>For the years ended December 31 (\$000s)</b>	<b>2023</b>	<b>2022</b>
Net income for the year	62,980	89,354
Other comprehensive income		
Items that may be reclassified subsequently to net income:		
Currency translation differences (note 18)	(4,938)	11,740
<b>Comprehensive income</b>	<b>58,042</b>	<b>101,094</b>

*See accompanying notes to the consolidated financial statements.*

# Consolidated Statements of Financial Position

(\$000s)	2023	2022
<b>ASSETS</b>		
Cash and cash equivalents	34,690	80,465
Restricted cash (note 3d)	1,719	2,761
Accounts receivable	10,631	12,487
Income taxes recoverable	2,998	3,889
Agreements receivable (note 8)	126,070	97,232
Land inventory (note 9)	728,002	749,501
Investment properties (note 10 and 29)	1,084,906	1,124,783
Property and equipment (note 11)	11,679	12,238
Other assets (note 12)	58,766	57,836
Assets held for sale (note 7)	33,774	19,500
Derivative financial instrument (note 29)	4,238	6,358
	<b>2,097,473</b>	<b>2,167,050</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities (note 13)	48,257	53,213
Income taxes payable	1,246	336
Provision for land development costs (note 14)	50,130	58,260
General debt (note 15)	670,174	740,365
Deferred income tax liabilities (note 22)	64,291	64,650
REIT units (note 26 and 29)	53,797	71,890
	<b>887,895</b>	<b>988,714</b>
<b>SHAREHOLDERS' EQUITY</b>		
Equity attributable to Melcor's shareholders		
Share capital (note 16a)	69,493	70,218
Contributed surplus	5,036	4,810
Accumulated other comprehensive income (AOCI) (note 18)	24,660	29,598
Retained earnings	1,110,389	1,073,710
	<b>1,209,578</b>	<b>1,178,336</b>
	<b>2,097,473</b>	<b>2,167,050</b>

See accompanying notes to the consolidated financial statements.

## Consolidated Statements of Changes in Equity

	Equity attributable to Melcor's shareholders				
(\$000s)	Share capital	Contributed surplus	AOCI	Retained earnings	Total equity
<b>Balance at January 1, 2023</b>	<b>70,218</b>	<b>4,810</b>	<b>29,598</b>	<b>1,073,710</b>	<b>1,178,336</b>
Net income for the year	—	—	—	62,980	62,980
Cumulative translation adjustment (note 18)	—	—	(4,938)	—	(4,938)
<b>Transactions with equity holders</b>					
Dividends	—	—	—	(19,759)	(19,759)
Share repurchase (note 16a)	(1,556)	—	—	(6,542)	(8,098)
Employee share based compensation					
Value of services recognized	—	1,057	—	—	1,057
Share issuance	831	(831)	—	—	—
<b>Balance at December 31, 2023</b>	<b>69,493</b>	<b>5,036</b>	<b>24,660</b>	<b>1,110,389</b>	<b>1,209,578</b>

	Equity attributable to Melcor's shareholders				
(\$000s)	Share capital	Contributed surplus	AOCI	Retained earnings	Total equity
<b>Balance at January 1, 2022</b>	<b>73,304</b>	<b>4,727</b>	<b>17,858</b>	<b>1,020,580</b>	<b>1,116,469</b>
Net income for the year	—	—	—	89,354	89,354
Cumulative translation adjustment (note 18)	—	—	11,740	—	11,740
<b>Transactions with equity holders</b>					
Dividends	—	—	—	(18,664)	(18,664)
Share repurchase (note 16a)	(3,875)	—	—	(17,560)	(21,435)
Employee share based compensation					
Value of services recognized	—	841	—	—	841
Share issuance	789	(758)	—	—	31
<b>Balance at December 31, 2022</b>	<b>70,218</b>	<b>4,810</b>	<b>29,598</b>	<b>1,073,710</b>	<b>1,178,336</b>

See accompanying notes to the consolidated financial statements.

# Consolidated Statements of Cash Flows

For the years ended December 31 (\$000s)	2023	2022
<b>CASH FLOWS FROM (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>		
Net income for the year	62,980	89,354
Non cash items:		
Amortization of tenant incentives (note 12)	8,416	7,561
Depreciation of property and equipment (note 11)	1,260	1,350
Stock based compensation expense (note 16g and 21)	1,057	841
Non cash financing costs (recoveries) (note 20)	4,766	(8,518)
Straight-line rent adjustment	(183)	(2,561)
Fair value adjustment on investment properties (note 10 and 29)	24,456	(21,554)
Fair value adjustment on REIT units (note 26 and 29)	(18,093)	(16,360)
Gain on sale of assets	(51)	(40)
Deferred income taxes (note 22)	(336)	8,225
Cash provided by operating activities before changes in non-cash working capital	84,272	58,298
Agreements receivable	(28,838)	30,507
Development activities (note 3u)	12,076	(44,646)
Payment of tenant incentives and direct leasing costs	(13,311)	(15,097)
Change in restricted cash (note 3d)	—	2,063
Purchase of land inventory (note 9)	(4,800)	(4,247)
Operating assets and liabilities (note 3u)	(591)	(8,527)
	48,808	18,351
<b>INVESTING ACTIVITIES</b>		
Additions to investment properties (note 10)	(21,562)	(16,007)
Net proceeds from disposal of investment properties (note 10)	7,822	34,998
Net proceeds from disposal of assets held for sale (note 11)	18,025	—
Change in restricted cash (note 3d)	1,000	—
Purchase of property and equipment (note 12)	(718)	(735)
Proceeds from disposal of assets	68	74
	4,635	18,330
<b>FINANCING ACTIVITIES</b>		
Redemption of debentures (note 15f)	—	(22,975)
Revolving credit facilities	(18,637)	41,423
Proceeds from general debt	24,443	105,191
Repayment of general debt	(76,915)	(100,805)
Repurchase of REIT units	—	(25)
Dividends paid	(19,759)	(18,664)
Common shares repurchased (note 16a)	(8,098)	(21,435)
Share capital issued	—	31
	(98,966)	(17,259)
<b>FOREIGN EXCHANGE (LOSS) GAIN ON CASH HELD IN A FOREIGN CURRENCY</b>	(252)	1,123
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR</b>	(45,775)	20,545
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR</b>	80,465	59,920
<b>CASH AND CASH EQUIVALENTS, END OF THE YEAR</b>	34,690	80,465

See accompanying notes to the consolidated financial statements.

## 1. DESCRIPTION OF THE BUSINESS

We are a real estate development company with Land, Properties, REIT and Golf 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, 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 March 13, 2024, 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 Accounting Standards").

Our consolidated financial statements have been prepared in accordance with IFRS Accounting Standards. These consolidated financial statements were authorized for issue by the Board of Directors on March 13, 2024.

## 3. MATERIAL ACCOUNTING POLICIES

The material 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 Accounting Standards 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 5 and 4, 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, 2023). The remaining 44.6% publicly held interest in the REIT is presented as a liability in our consolidated financial statements. Refer to notes 6 and 26 for details related to our interest in the REIT.
- III. Investments in 30 joint arrangements (2022 – 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 23 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, 2023 our restricted cash represents amounts held in escrow related to land projects in the US.

### 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 valuers 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 determined that lots can be sold 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.



## I. 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 material 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 9 – 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 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. 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 28a 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 29 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.

## 5. 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 15c), 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 land 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.

## 6. INTEREST IN MELCOR REIT

As at December 31, 2023 we hold a 55.4% (2022 - 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 26 for summary financial information of the REIT at December 31, 2023. As of March 13, 2024 we hold a 55.4% ownership interest in the REIT.

## 7. ASSETS HELD FOR SALE

During the year, we classified three retail properties as assets held for sale with a fair value of \$33,774 (including investment property of \$32,143, tenant incentives of \$1,360 and straight-line rent of \$271). As at December 31, 2023 management has committed to a plan to sell the properties.

On February 1, 2023, we disposed of an investment property classified as assets held for sale at December 31, 2022 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 assets held for sale at December 31, 2022 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.

## 8. AGREEMENTS RECEIVABLE

Agreements receivable are due in 2024, except for \$8,104 due in 2025 (2022 - balance due 2023, except \$15,863 due in 2024, \$396 due in 2025). 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 (9.20% at December 31, 2023) and are collateralized by the specific real estate sold.

At December 31, 2023, promotional programs of \$1,076 (2022 - \$254) 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 28a for further discussion surrounding credit risk.

## 9. LAND INVENTORY

<i>As at December 31</i>	<b>2023</b>	<b>2022</b>
Raw land held	<b>377,946</b>	384,681
Land under development	<b>201,879</b>	187,140
Developed land	<b>148,177</b>	177,680
	<b>728,002</b>	749,501

A breakdown of our land purchases are as follows:

	<b>2023</b>	<b>2022</b>
Land purchases - acres	<b>120.00</b>	13.01
Land cost	<b>4,800</b>	4,247
Net cash to close	<b>4,800</b>	4,247

During the year, 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. In 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.

The weighted average interest rate used for capitalization of borrowing costs to land under development is 5.37% for the year ended December 31, 2023 (2022 – 4.47%). Borrowing costs capitalized to land inventory during the year were \$4,319 (2022 - \$3,634).

Land inventory expensed to cost of sales during the year was \$119,190 (2022 - \$71,185).

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, 2023 and 2022, such that no provision for impairment is required.

## 10. INVESTMENT PROPERTIES

Investment properties consists of the following:

<i>As at December 31</i>	<b>2023</b>	<b>2022</b>
Investment properties	<b>1,001,585</b>	1,059,490
Properties under development	<b>83,321</b>	65,293
Total	<b>1,084,906</b>	1,124,783

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

			<b>2023</b>
	<b>Investment properties</b>	<b>Properties under development</b>	<b>Total</b>
Balance - beginning of year	1,059,490	65,293	1,124,783
<b>Additions</b>			
Transfer from land inventory	—	3,104	3,104
Direct leasing costs	1,481	508	1,989
Property improvements	5,967	—	5,967
Property development	—	14,904	14,904
Capitalized borrowing costs	—	691	691
Disposals	(7,822)	—	(7,822)
Transfers	9,481	(9,481)	—
Fair value adjustment on investment properties	(32,758)	8,302	(24,456)
Investment property classified as held for sale (note 7)	(32,143)	—	(32,143)
Other adjustments	287	—	287
Foreign currency translation (included in OCI)	(2,398)	—	(2,398)
Balance - end of year	1,001,585	83,321	1,084,906
			<b>2022</b>
	<b>Investment properties</b>	<b>Properties under development</b>	<b>Total</b>
Balance - beginning of year	1,071,456	47,349	1,118,805
<b>Additions</b>			
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

### Disposals during the year:

- We disposed of ten residential units in Arizona for net sale price of \$4,551 (US\$3,363) net of transaction costs.
- We also disposed of an investment property in Lethbridge for net sale price of \$3,271 (net of transaction costs) and including tenant incentives of \$94 and straight-line rent of \$17.

### Disposals in the comparative 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.

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 29.

Presented separately from investment properties is \$33,745 (2022 - \$34,013) in tenant incentives and \$17,399 (2022 - \$17,504) in straight-line rent adjustments (included in note 12). The fair value of investment properties has been reduced by these amounts.

During the year, we reclassified \$32,143 from investment properties to assets held for sale (note 7). Fair value adjustment on investment properties includes adjustments related to assets held for sale (note 7) which was a loss of \$1,325 for the year ended December 31, 2023.

In the year ended December 31, 2022, we reclassified \$19,089 from investment properties to assets held for sale. This asset was sold on February 1, 2023 (note 7).

The weighted average interest rate used for capitalization of borrowing costs to investment properties under development is 7.70% for the year ended December 31, 2023 (2022 – 6.95%).

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:

	2023	2022
Within one year	69,026	71,188
Later than one year but not later than 2 years	61,571	63,640
Later than 2 years but not later than 3 years	52,078	53,982
later than 3 years but not later than 4 years	44,769	44,519
Later than 4 years but not later than 5 years	35,204	37,160
Later than 5 years	133,100	134,206
Total	395,748	404,695

## 11. PROPERTY AND EQUIPMENT

	Golf course assets				Corporate	Total
	Land	Buildings	Equipment	Greens and tees		
<b>January 1, 2023</b>						
Cost	1,293	8,175	9,795	6,708	7,678	33,649
Accumulated depreciation	—	(3,816)	(7,422)	(4,105)	(6,068)	(21,411)
Opening net book value	1,293	4,359	2,373	2,603	1,610	12,238
Additions	—	11	595	5	107	718
Disposals	—	—	(17)	—	—	(17)
Depreciation	—	(172)	(619)	(158)	(311)	(1,260)
<b>Net Book Value - December 31, 2023</b>	1,293	4,198	2,332	2,450	1,406	11,679



	Golf course assets				Corporate	Total
	Land	Buildings	Equipment	Greens and tees		
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

## 12. OTHER ASSETS

	2023	2022
Tenant incentives	33,745	34,013
Deposits and prepaids	7,070	5,838
Straight-line rent adjustments	17,399	17,504
Inventory	552	481
	58,766	57,836

During the year we provided tenant incentives of \$9,602 (2022 - \$10,730) and recorded \$8,416 (2022 - \$7,561) 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 \$1,360 (2022 - \$316) in tenant incentives and \$271 (2022 - \$95) in straight-line rent adjustments to assets held for sale (note 7). We also disposed of a property which included \$94 of tenant incentives and \$17 in straight-line rent adjustments (note 10).

## 13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2023	2022
Trade accounts payable	18,679	19,269
Distribution payable	519	519
Other payables	27,219	31,616
Provision for decommissioning obligation	1,840	1,809
	48,257	53,213

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, 2023, distribution payable pertains to the December 2023 monthly distribution which was subsequently paid on January 15, 2024 (2022 - December 2022 monthly distribution paid on January 15, 2023).

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, 2022 - \$2,014). At December 31, 2023, a discount rate of 4.00% (December 31, 2022 - 4.00%) and an inflation rate of 2.00% (December 31, 2022 - 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.

## 14. PROVISION FOR LAND DEVELOPMENT

	2023	2022
Balance - beginning of year	58,260	79,517
New development projects	101,795	87,203
Changes to estimates	1,582	(2,136)
Costs incurred	(111,507)	(106,324)
Balance - end of year	50,130	58,260

## 15. GENERAL DEBT

General debt consists of the following:

		2023	2022
Melcor - revolving credit facilities	a	71,976	96,839
REIT - revolving credit facility	b	37,860	31,634
Project specific financing	c	7,724	22,597
Secured vendor take back debt on land inventory	d	—	5,717
Debt on investment properties and golf course assets	e	507,463	539,110
REIT - convertible debentures	f	45,151	44,468
General debt		670,174	740,365

### a. Melcor - revolving credit facilities

We have available credit facilities with approved loan limits of \$212,150 (2022 - \$196,350) with a syndicate of major chartered banks. The portion of these loan limits that pertain solely to Melcor is \$120,000 (2022 - \$120,000) with the remaining balance pertaining to specific joint arrangements.

The amount of the total credit facilities currently used is \$71,976 (2022 - \$96,839), which includes \$12,750 drawn on the Banker's Acceptance. 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 \$400,656 (2022 - \$333,475).

The facilities mature on July 31, 2025, 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 7.95% to 8.45% at December 31, 2023 (2022 - 7.20% to 7.70%). 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 8.39% (December 31, 2022 - 7.67%).

Interest rate reform and replacement of benchmark interest rates such as CDOR and other inter-bank offered rates ('IBORs') has become a priority for global regulators. Our credit facility agreement references CDOR/Banker's Acceptance. As at December 31, 2023, these loans have not transitioned to alternative interest rate benchmarks.

### 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 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.

As at December 31, 2023, the carrying value of pledged properties was \$76,700 (December 31, 2022 - \$56,700).

As at December 31, 2023, we have an approved credit facility of \$41,323 (December 31, 2022 - \$34,104). As at December 31, 2023 we had \$37,860 (December 31, 2022 - \$31,634) drawn from the facility (net of unamortized transaction fees and unamortized discount on bankers acceptance), which includes \$25,000 drawn on the Banker's Acceptance; and posted no letters of credit (December 31, 2022 - \$nil).

Interest rate reform and replacement of benchmark interest rates such as CDOR and other inter-bank offered rates ('IBORs') has become a priority for global regulators. Our credit facility agreement references CDOR/Banker's Acceptance. As at December 31, 2023, this loan has not transitioned to alternative interest rate benchmarks.

### c. Project specific financing

	2023	2022
Project specific debt on land, with nil% interest rates (2022 - 7.83% to 8.42%)	—	13,234
Project specific debt on investment properties under development, with 7.70% interest rate (2022 - 6.95%)	7,724	9,363
	<b>7,724</b>	<b>22,597</b>

The weighted average interest rate on the above debts, based on year end balances, is 7.70% (2022 - 7.72%). Specific investment properties under development with a December 31, 2023 carrying value of \$12,200 (2022 - \$125,586), have been pledged as collateral on project specific debt on investment properties under development. Project specific financing is due on demand.

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

	2023	2022
<b>Balance - beginning of year</b>	<b>22,597</b>	40,758
<b>Cash movements</b>		
Loan repayments	(16,826)	(50,351)
New project financing	1,953	31,811
<b>Non-cash movements</b>		
Foreign currency translation included in OCI	—	379
<b>Balance - end of year</b>	<b>7,724</b>	<b>22,597</b>

### d. Secured vendor take back debt on land inventory

	2023	2022
Agreements payable with interest at the following contractual rates:		
Fixed rate of nil% (2022- 4.00% - 4.25%)	—	5,717
	—	5,717

The weighted average effective interest rate for the above debts, based on year end balances, is nil% (2022 - 4.13%).

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

	2023	2022
<b>Balance - beginning of year</b>	<b>5,717</b>	11,794
<b>Cash movements</b>		
Scheduled amortization on debt	(5,717)	(6,077)
<b>Balance - end of year</b>	<b>—</b>	<b>5,717</b>

## e. Debt on investment properties and golf course assets

Debt on investment properties and golf course assets	2023	2022
Mortgage at floating interest rate of prime plus 1% (2022 - 7.45%)	—	5,876
Variable rate mortgages amortized over 10 to 30 years at variable interest rates of 2.62% - 8.80% (2022 - 2.62% - 8.05%)	132,247	122,845
Mortgages amortized over 15 to 25 years at fixed interest rates of 2.62% - 7.66% (2022 - 2.62% - 5.52%)	376,761	413,290
	509,008	542,011
Fair value adjustment on interest rate swaps	1,130	—
Unamortized deferred financing fees	(2,675)	(2,901)
	507,463	539,110
Interest rate ranges	(2.62% - 8.80%)	(2.62% - 8.05%)

As at December 31, 2023 \$44,828 (2022 - \$53,119) of debt was payable in US dollars (2023 - US \$33,894 and 2022 - US \$39,220). The debts mature from 2025 to 2028.

Specific investment properties and golf courses with a carrying value of \$881,155 (2022 - \$858,182) 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 4.11% (2022 - 3.75%).

Interest rate reform and replacement of benchmark interest rates such as CDOR and other inter-bank offered rates ('IBORs') has become a priority for global regulators. We have nine debt agreements with a carrying value of \$131,853 which reference CDOR/Banker's Acceptance. As at December 31, 2023, these loans have 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:

2024	63,222
2025	100,424
2026	80,174
2027	32,400
2028	66,057
Thereafter	166,731
	509,008

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

	2023	2022
<b>Balance - beginning of year</b>	539,110	506,382
<b>Cash movements</b>		
Principal repayments:		
Scheduled amortization on mortgages	(18,012)	(18,092)
Mortgage repayments	(36,360)	(26,285)
New mortgages	22,490	73,380
Non-cash movements		
Mortgage amendment	—	(893)
Deferred financing fees capitalized	(546)	(1,115)
Amortization of deferred financing fees	772	1,123
Change in fair value of interest rate swap	1,130	629
Foreign currency translation included in OCI	(1,121)	3,981
<b>Balance - end of year</b>	507,463	539,110

## f. REIT - convertible debentures

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

<i>(\$000s) except amounts stated in units</i>					December 31, 2023	December 31, 2022	
Convertible Debentures	Date Issued	Maturity Date	Conversion rate in units*	Interest Rate	Outstanding Principal	Carrying Value	Carrying Value
2019 Debentures	Oct 29, 2019	Dec 31, 2024	112.3596	5.10 %	46,000	44,997	44,056

\*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:

<i>(\$000s)</i>	Host Instruments	Conversion Features	Total
<b>Balance at December 31, 2021</b>	<b>65,637</b>	<b>5,292</b>	<b>70,929</b>
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)
<b>Balance at December 31, 2022</b>	<b>44,056</b>	<b>412</b>	<b>44,468</b>
Fair value adjustment on conversion features	—	(258)	(258)
Amortization of discount and transaction costs	465	—	465
Accretion on convertible debentures	476	—	476
<b>Balance at December 31, 2023</b>	<b>44,997</b>	<b>154</b>	<b>45,151</b>

During the year ended December 31, 2023, we recognized \$2,347 of interest expense related to the convertible debentures which is included in finance costs (note 20) (2022 - \$3,553).

At December 31, 2023 we remeasured the conversion features to fair value resulting in fair value gain of \$258 for the year (2022 - fair value gain of \$4,880). Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 29.

At December 31, 2023, the fair value of the conversion features on our convertible debentures was \$154 liability (2022 - \$412 liability).

In the comparative period, our 2017 Debentures matured resulting in a repayment of \$22,975.

## 16. SHARE CAPITAL

### a. Common Shares

	2023	2022
	Number of Shares Issued (# of shares)	Amount (\$000s)
Common shares, beginning of the year	31,248,628	70,218
Issued on exercise or exchange of options and restricted share units*	125,985	831
Shares purchased for cancellation	(712,160)	(1,556)
Common shares, end of the year	30,662,453	69,493

		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 and restricted share units*	65,275	789
Shares purchased for cancellation	(1,777,662)	(3,875)
Common shares, end of the year	31,248,628	70,218

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

Authorized:

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

On April 1, 2022 Melcor commenced a Normal Course Issuer (NCIB) which expired on March 31, 2023. Under this bid, we were allowed 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. On December 22, 2022, Melcor filled the NCIB by purchasing the final shares bringing the total to the maximum 1,641,627 shares allowed.

On June 7, 2023 Melcor commenced a new 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 year, there were 712,160 (2022 - 1,777,662) common shares purchased for cancellation by Melcor pursuant to the above NCIBs at a cost of \$8,098 (2022 - \$21,435).

## 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 (2022 - 1,739,252).

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

<b>2007 Plan</b>	<b>2023</b>	<b>2022</b>
Stock options available, beginning of the year	1,516,252	1,253,486
Stock options surrendered	—	60,666
Stock options expired / canceled	122,500	202,100
Stock options available, end of the year	1,638,752	1,516,252
		<b>2023</b>
	<b>Number of Options</b>	<b>Weighted Average Exercise Price (\$)</b>
Stock options outstanding, beginning of the year	223,000	12.74
Stock options expired / canceled	(122,500)	13.01
Stock options outstanding, end of the year	100,500	12.42
		<b>2022</b>
	<b>Number of Options</b>	<b>Average Exercise Price (\$)</b>
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

During 2023 there were no options exercised (2022 - 69,200). The 2023 weighted average exercise price of options exercised was \$nil (2022 - \$13.88).

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

	<b>2023</b>	<b>2022</b>
Units available, beginning of the year	1,055,375	1,137,255
Units granted to employees	(117,700)	(108,400)
Units issued under dividend reinvestment plan	(16,759)	(12,522)
Units expired / canceled	16,976	39,042
Units available, end of the year	937,892	1,055,375

2023

	Number of Units	Weighted Average Fair Value (\$)
Units outstanding, beginning of the year	313,806	10.09
Units granted to employees	117,700	11.24
Units exercised	(125,985)	7.49
Units issued under dividend reinvestment	16,759	10.74
Units expired / canceled	(16,976)	10.40
Units outstanding, end of the year	305,304	11.90

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

#### e. Stock Options Outstanding and Exercisable Under the 2007 Plan

2023

Stock option expiry date	Outstanding Stock Options	Exercise Price Per Share (\$)	Stock Options Exercisable
December 11, 2024	100,500	12.42	100,500
	100,500		100,500

#### f. Restricted Share Units Outstanding and Redeemable

2023

Restricted share unit expiry date	Outstanding Restricted Share Units	Exercise Price Per Unit (\$)	Restricted Share Units Vested
December 31, 2024	77,913	14.35	—
December 31, 2025	108,025	10.85	—
December 31, 2026	119,366	11.24	—
	305,304		

#### 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 \$nil (2022 - \$43) 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 \$11.24 (2022 - \$10.85) per RSU. Current year compensation expense related to the RSU plan resulted in a \$1,057 (2022 - \$798) charge to stock based compensation expense and corresponding credit to contributed surplus.

## 17. PER SHARE AMOUNTS

(# of shares)	2023	2022
Basic weighted average common shares outstanding during the year	30,938,445	32,452,749
Dilutive effect of options and restricted share units	162,718	151,344
Diluted weighted average common shares	31,101,163	32,604,093

For the year ended December 31, 2023, there were 100,500 stock options excluded from the calculation of diluted earnings per share (2022 - 223,000) as their impact would be anti-dilutive.

Diluted earnings per share was calculated based on the following:

	2023	2022
Profit attributable to shareholders	62,980	89,354
Profit for computation of diluted earnings per share	62,980	89,354

## 18. ACCUMULATED OTHER COMPREHENSIVE INCOME

	2023	2022
Balance, beginning of the year	29,598	17,858
Other comprehensive loss, net of tax of \$nil	(4,938)	11,740
Balance, end of the year	24,660	29,598

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

## 19. 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, 2023 we had \$33,374 (December 31, 2022 - \$31,732) in letters of credit outstanding and recorded a net liability of \$50,130 (December 31, 2022 - \$58,260) 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, 2023 we had guaranteed \$5,252 (December 31, 2022 - \$3,878) in credit facilities in excess of the amount recognized as a liability. We also guaranteed \$12,513 (December 31, 2022 - \$12,399) 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 \$1,364 (2022 - \$2,289) may be required from lease agreements entered during the year.

## 20. FINANCE COSTS

	2023	2022
Interest on Melcor - revolving credit facilities	7,543	4,816
Interest on REIT - revolving credit facility	2,541	322
Interest on REIT - convertible debentures	2,347	3,553
Interest on general debt	20,314	19,680
Financing costs and bank charges	1,972	1,538
Gain on settlement of interest rate swap	(73)	(172)
Non cash financing costs (recoveries)	4,766	(8,518)
	<b>39,410</b>	<b>21,219</b>
Less: capitalized interest	<b>(5,010)</b>	<b>(3,941)</b>
	<b>34,400</b>	<b>17,278</b>

Finance costs paid during the year was \$35,240 (2022 - \$30,977). Non cash financing costs (recoveries) include debentures accretion expense, debentures amortized fees and fair value adjustment on derivatives.

## 21. REVENUE AND EXPENSE BY NATURE

### a. Revenue:

The components of revenue are as follows:

#### *Revenue from contracts with customers*

	2023	2022
Sale of land	191,307	118,869
Operating cost recoveries	20,162	19,453
Golf course revenue	10,636	10,045
Total	<b>222,105</b>	<b>148,367</b>

#### *Other Revenue*

	2023	2022
Lease revenue	68,035	69,471
Variable lease revenue	20,141	19,463
Management fees	4,958	4,446
Total	<b>93,134</b>	<b>93,380</b>
<b>Total revenue</b>	<b>315,239</b>	<b>241,747</b>

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

	Land	Properties	Golf	REIT	Total
<b>2023</b>					
Timing of Revenue Recognition					
At a point in time	191,307	—	9,377	—	200,684
Over time	—	6,898	1,259	13,264	21,421
Revenue from contracts with customers	191,307	6,898	10,636	13,264	222,105
<b>2022</b>					
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

## b. Cost of sales:

The components of cost of sales are as follows:

	2023	2022
Cost of land sold	119,190	71,185
Investment property direct operating expenses	47,283	46,315
Direct golf course expenses	5,465	4,979
Golf course asset depreciation	949	1,005
Total	172,887	123,484

## c. General and administrative expenses:

The components of general and administrative expenses are as follows:

	2023	2022
Employee salary and benefits		
Salaries, wages and retirement allowance	10,465	10,799
Employee benefits	982	922
Stock based compensation	1,057	841
Corporate asset depreciation	311	345
Marketing	983	1,142
Other	9,150	8,973
Total	22,948	23,022

Included in employee salary and benefits is the compensation of key management including chief executive officer, chief financial officer and the next three most highly compensated executive officers. Compensation awarded to key management includes:

	2023	2022
Salaries, wages and retirement allowance	3,276	2,955
Employee benefits	56	43
Stock based compensation	556	537
Total	3,888	3,535

## 22. INCOME TAX

Components of tax expense:

	2023	2022
<b>Current tax expense</b>		
Current year	13,129	14,912
Adjustment to prior years	4	(73)
	<b>13,133</b>	14,839
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	(336)	8,225
	<b>(336)</b>	8,225
<b>Total tax expense</b>	<b>12,797</b>	23,064

Reconciliation of effective tax rate:

	2023	2022
Income before taxes	75,777	112,418
Statutory rate	23 %	23 %
	<b>17,429</b>	25,856
(Non-taxable) non-deductible portion of capital (gain) losses and fair value adjustments	(1,431)	627
Non-taxable portion of REIT income	(185)	(1,745)
Impact of different tax rates in subsidiaries	127	818
Non-deductible expenses	1,018	1,270
Non-taxable fair value adjustments on REIT units	(4,161)	(3,762)
<b>Total tax expense</b>	<b>12,797</b>	23,064

Movement in deferred tax balances during the year:

	December 31, 2023			
	Opening	Recognized in profit or loss	Foreign currency translation (included in OCI)	Closing
Investment property and capital assets	59,964	(2,078)	(23)	57,863
Reserves for tax purposes	7,711	2,584	—	10,295
Capitalized interest	(2,864)	(804)	—	(3,668)
Provision for decommissioning obligation	(229)	(9)	—	(238)
Convertible debenture	146	(28)	—	118
Tax losses carried forward	(78)	(1)	—	(79)
<b>Deferred tax liability</b>	<b>64,650</b>	<b>(336)</b>	<b>(23)</b>	<b>64,291</b>

	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 loss carry-forwards	(77)	(1)	—	(78)
Deferred tax liability	56,341	8,225	84	64,650

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 \$12,620 (2022 - \$24,518).

At December 31, 2023, there was a deferred tax liability of \$1,264 (2022 - \$1,485) for temporary differences of \$10,988 (2022 - \$12,916) related to investments in subsidiaries, specifically loans advanced by Melcor to its US subsidiaries. However, this liability was not recognized because Melcor controls the repayment policy of its subsidiaries and therefore controls the timing of reversal of the related taxable temporary differences. Management is satisfied that the taxable temporary differences will not reverse in the foreseeable future.

## 23. JOINT ARRANGEMENTS

The table below discloses our proportionate share of the assets, liabilities, revenue, and earnings of 30 arrangements (2022 – 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 golf	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 with investment property and golf	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
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, 2023.

	2023	2022
Assets	455,174	476,009
Liabilities	159,580	195,666
Revenue	95,985	81,364
Net Earnings	30,986	29,055

Contingent liabilities arising for liabilities of other joint arrangement participants are disclosed in note 19.

## 24. SEGMENTED INFORMATION

In 2023, there were changes to our segmented reporting where our former two divisions "Investment Properties" and "Property Development" were combined into one division "Properties". Comparative information has been restated to be consistent with the presentation of the new segments.

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.

### Land

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

### Properties

This division owns 24 leasable commercial, retail and residential properties (2022 – 25 properties) and other rental income producing assets such as parking lots and land leases. This division also develops high-quality retail, office and industrial revenue-producing properties on serviced commercial sites developed primarily from our Land division.

### REIT

This division owns 38 leasable commercial and retail properties (2022 – 39 properties) and other rental income producing assets such as residential property, parking lots and land leases.

### Golf

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:

<b>External Revenue:</b>		
(in Canadian dollars)	<b>2023</b>	<b>2022</b>
United States	<b>54,260</b>	15,825
Canada	<b>260,979</b>	225,922
<b>Total</b>	<b>315,239</b>	241,747
<b>Total Assets:</b>		
As at December 31 (in Canadian dollars)	<b>2023</b>	<b>2022</b>
United States	<b>240,210</b>	291,635
Canada	<b>1,857,263</b>	1,875,415
<b>Total</b>	<b>2,097,473</b>	2,167,050

### US Operations

Melcor has a wholly owned subsidiary with operations in the US, which includes a Land division and a Properties division. The subsidiary's related balances are included in the table above.

Our divisions reported the following results:

2023	Land	Properties	REIT	Golf	Corporate	Subtotal	Intersegment Elimination	Total
Revenue (note 21)	201,753	43,163	73,900	11,088	—	329,904	(14,665)	<b>315,239</b>
Cost of sales (note 21)	(122,295)	(18,257)	(31,249)	(6,566)	—	(178,367)	5,480	<b>(172,887)</b>
Gross profit	79,458	24,906	42,651	4,522	—	151,537	(9,185)	<b>142,352</b>
General and administrative expense (note 21)	(7,721)	(5,051)	(3,112)	(2,717)	(7,410)	(26,011)	3,063	<b>(22,948)</b>
Fair value adjustment on investment properties (note 10 and 29)	—	(13,784)	(16,794)	—	—	(30,578)	6,122	<b>(24,456)</b>
Gain on sale of assets	—	—	—	51	—	51	—	<b>51</b>
Interest income	2,856	117	62	10	165	3,210	—	<b>3,210</b>
<i>Segment earnings (loss)</i>	<i>74,593</i>	<i>6,188</i>	<i>22,807</i>	<i>1,866</i>	<i>(7,245)</i>	<i>98,209</i>	<i>—</i>	<b><i>98,209</i></b>
Foreign exchange gain								<b>97</b>
Finance costs (note 20)								<b>(34,400)</b>
Adjustments related to REIT units (note 26)								<b>11,871</b>
Income before income taxes								<b>75,777</b>
Income tax expense (note 22)								<b>(12,797)</b>
Net income for the year								<b>62,980</b>
2022	Land	Properties	REIT	Golf	Corporate	Subtotal	Intersegment Elimination	Total
Revenue (note 21)	135,777	43,390	74,105	10,453	—	263,725	(21,978)	241,747
Cost of sales (note 21)	(83,054)	(17,445)	(31,060)	(6,126)	—	(137,685)	14,201	(123,484)
Gross profit	52,723	25,945	43,045	4,327	—	126,040	(7,777)	118,263
General and administrative expense (note 21)	(7,848)	(5,233)	(3,358)	(2,716)	(6,900)	(26,055)	3,033	(23,022)
Fair value adjustment on investment properties (note 10 and 29)	—	28,805	(11,995)	—	—	16,810	4,744	21,554
Gain on sale of assets	—	—	—	40	—	40	—	40
Interest income	1,406	35	31	6	136	1,614	—	1,614
<i>Segment earnings (loss)</i>	<i>46,281</i>	<i>49,552</i>	<i>27,723</i>	<i>1,657</i>	<i>(6,764)</i>	<i>118,449</i>	<i>—</i>	<b><i>118,449</i></b>
Foreign exchange gain								1,109
Finance costs (note 20)								(17,278)
Adjustments related to REIT units (note 26)								10,138
Income before income taxes								112,418
Income tax expense (note 22)								(23,064)
Net income for the year								89,354



## 25. 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	2023
<b>ASSETS</b>				
Cash and cash equivalents	31,401	3,289	—	34,690
Restricted cash (note 3(d))	1,719	—	—	1,719
Accounts receivable	10,283	2,133	(1,785)	10,631
Income taxes recoverable	2,998	—	—	2,998
Agreements receivable (note 8)	126,070	—	—	126,070
Land inventory (note 9)	728,002	—	—	728,002
Investment properties (note 10 and 29)	461,395	629,993	(6,482)	1,084,906
Property and equipment (note 11)	11,434	—	245	11,679
Other assets (note 12)	25,330	29,039	4,397	58,766
Assets held for sale (note 7)	—	33,774	—	33,774
Derivative financial instrument (note 29)	1,468	2,770	—	4,238
Melcor's investment in REIT	128,970	—	(128,970)	—
	1,529,070	700,998	(132,595)	2,097,473
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities (note 13)	33,793	16,252	(1,788)	48,257
Income taxes payable	1,246	—	—	1,246
Provision for land development costs (note 14)	50,130	—	—	50,130
General debt (note 15)	273,265	396,909	—	670,174
Deferred income tax liability (note 22)	64,291	—	—	64,291
Class B LP units	—	66,919	(66,919)	—
Class C LP units	—	21,630	(21,630)	—
REIT units (note 26 and 29)	—	—	53,797	53,797
	422,725	501,710	(36,540)	887,895

(\$000s)	Melcor	REIT	Intercompany Eliminations	2022
<b>ASSETS</b>				
Cash and cash equivalents	77,161	3,304	—	80,465
Restricted cash (note 3d)	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 8)	97,232	—	—	97,232
Land inventory (note 9)	749,501	—	—	749,501
Investment properties (note 10 and 29)	461,433	672,010	(8,660)	1,124,783
Property and equipment (note 11)	11,983	—	255	12,238
Other assets (note 12)	22,132	29,128	6,576	57,836
Derivative financial instrument (note 29)	2,610	3,748	—	6,358
Assets held for sale	—	19,500	—	19,500
Melcor's investment in REIT	167,392	—	(167,392)	—
	1,607,137	730,769	(170,856)	2,167,050
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities (note 13)	39,993	14,861	(1,641)	53,213
Income taxes payable	336	—	—	336
Provision for land development costs (note 14)	58,260	—	—	58,260
General debt (note 15)	340,624	399,741	—	740,365
Deferred income tax liability (note 22)	64,650	—	—	64,650
Class B LP units	—	89,172	(89,172)	—
Class C LP units	—	37,798	(37,798)	—
REIT units (note 26 and 29)	—	—	71,890	71,890
	503,863	541,572	(56,721)	988,714

## 26. NON-CONTROLLING INTEREST IN MELCOR REIT

In accordance with our policy, as detailed in notes 3r and 29, 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, 2023 the REIT units had a fair value of \$53,797 (2022 - \$71,890). We recorded adjustments related to REIT units for the year of \$11,871 (2022 - \$10,138).

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

	2023	2022
Fair value adjustment on REIT units	18,093	16,360
Distributions to REIT unitholders	(6,222)	(6,222)
<b>Adjustments related to REIT units</b>	<b>11,871</b>	<b>10,138</b>

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

	2023	2022
Assets	700,998	730,769
Liabilities (excluding Class B LP units)	434,791	452,400
<b>Net assets</b>	<b>266,207</b>	<b>278,369</b>
Cost of NCI	103,934	103,934
Fair value of NCI	53,797	71,890

	2023	2022
Revenue	73,900	74,105
Net income and comprehensive income	16,313	29,610
Cash flows from operating activities	11,993	11,936
Cash flows from (used in) investing activities	14,563	(4,452)
Cash flows used in financing activities, before distributions to REIT unitholders	(20,349)	(5,213)
Cash flows used in financing activities - cash distributions to REIT unitholders	(6,222)	(6,222)
<b>Net (decrease) in cash and cash equivalents</b>	<b>(15)</b>	<b>(3,951)</b>

## 27. 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 (2022 - \$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, 2023, and throughout the period, we were in compliance with our financial covenants.

In addition, we are subject to financial covenants on our \$50,000 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, 2023, 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, 2023, 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.

## 28. 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 Properties 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 Properties Division by renting to an expansive tenant base, with no dependency on rents from any one specific tenant.

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 \$481 (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. At December 31, 2023, 93% of agreements receivable are due from approved builders (2022 – 94%).

	Current	0-6 months past due	Greater than 6 months past due	Total
<b>As at December 31, 2023</b>				
Expected loss rate	0.06 %	0.18 %	0.18 %	
Agreements receivable	121,854	3,402	895	126,151
<b>Loss allowance</b>	<b>73</b>	<b>6</b>	<b>2</b>	<b>81</b>

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

Total loans included in agreements receivable that would have otherwise been past due at December 31, 2023, but whose terms have been renegotiated is \$239 (2022 - \$5,816). In order to address current market conditions, we have provided extensions on our standard terms to relieve liquidity pressure on builders. At December 31, 2023, we have identified \$4,297 (2022 - \$4,685) 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 15 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 \$2,498 (2022 - \$2,739) based upon applicable year end debt balances. We are not subject to other significant market risks pertaining to our financial instruments.

## 29. 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 assets 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.

(\$000s)	Fair Value hierarchy	Fair Value	Amortized Cost	December 31, 2023		December 31, 2022	
				Total Carrying Value	Total Fair Value	Total Carrying Value	Total Fair Value
<b>Non-financial assets</b>							
Investment properties	Level 3	1,084,906	—	1,084,906	1,084,906	1,124,783	1,124,783
Assets held for sale	Level 3	33,774	—	33,774	33,774	19,500	19,500
<b>Financial liabilities</b>							
General debt, excluding derivative financial liability	Level 3	—	623,893	623,893	571,015	695,897	642,460
REIT - Convertible debenture	Level 2	—	44,997	44,997	44,356	44,056	41,011
<b>Derivative financial liabilities</b>							
Interest rate swaps	Level 3	1,130	—	1,130	1,130	—	—
Conversion features on convertible debentures	Level 3	154	—	154	154	412	412
REIT units	Level 1	53,797	—	53,797	53,797	71,890	71,890
<b>Derivative financial assets</b>							
Interest rate swaps	Level 3	4,238	—	4,238	4,238	6,358	6,358

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:

- 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 valuers who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.

Investment properties were valued by Melcor's internal valuation team as at December 31, 2023 of which 36 legal phases included in investment properties (of 93 legal phases valued) with a fair value of \$389,088 were valued by qualified independent external valuation professionals during the year which resulted in fair value losses of \$24,456 recorded as fair value adjustment on investment properties in the statements of income and comprehensive income (2022 - investment properties were valued by Melcor Development Ltd.'s internal valuation team 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).

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 \$1,498 (2022 - \$1,448). 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		
	Min	Max	Weighted Average	Min	Max	Weighted Average
December 31, 2023						
Capitalization rate	5.00%	10.50%	7.00%	6.00%	6.25%	6.14%
Terminal capitalization rate	5.75%	9.25%	7.14%	6.25%	6.50%	6.39%
Discount rate	6.75%	10.25%	8.02%	7.25%	6.50%	7.27%

	Investment Properties			Properties under Development		
	Min	Max	Weighted Average	Min	Max	Weighted Average
December 31, 2022						
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 the capitalization rates by 50 basis points would decrease the carrying amount of investment properties by \$64,000 (2022 - \$66,000). A decrease in the capitalization rates by 50 basis points would increase the carrying amount of investment properties by \$73,800 (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 1.25% 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, 2023 the fair value of the REIT units was \$53,797 (2022 - \$71,890). During the year a fair value gain of \$18,093 (2022 - gain of \$16,360) 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, 2023 the fair value of interest rate swap asset was \$4,238 asset and \$1,130 liability included in general debt (2022 - \$6,358 interest rate swap asset).

The conversion features on the convertible debentures was valued at December 31, 2023. This resulted in a fair value gain of \$258 (2022 - fair value gain of \$4,880) 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, 2023 are as follows:

- Volatility - expected volatility as at December 31, 2023 was derived from the historical prices of the REIT's trust units. Volatility was 27.28% (2022 - 23.80%).
- Credit spread - the credit spread of the convertible debentures was imputed from the traded price of the convertible debentures as at December 31, 2023. The credit spread used was 8.83% (2022 - 11.13%).

### 30. SUBSEQUENT EVENTS

#### Distributions on REIT trust units:

On January 15, 2024 we declared a distribution of \$0.04 per unit to unitholders on record on January 31, 2024 payable on February 15, 2024. On February 22, 2024 we announced the suspension of the distribution.

#### Dividend declared:

On March 13, 2024, our board of directors declared a quarterly dividend of \$0.11 per share payable on March 29, 2024 to shareholders of record on March 22, 2024.