

# ANNUAL REPORT 2023



**MELCOR**

Celebrating 100 years of business

## WHAT'S INSIDE

- 3 Key Metrics
- 4 Letter from the Executive Chair and CEO
- 6 Letter from the Chief Operating Officer and CFO
- 8 Corporate Governance
- 10 5 Year Results
- 11 Corporate & Shareholder Information (*Back Cover*)



## FINANCIAL HIGHLIGHTS

(\$000s except as noted)	2023	2022	Change
Revenue	315,239	241,747	30%
Gross margin (%) <sup>1</sup>	45%	49%	(8%)
Fair value adjustment on investment properties	(24,456)	21,554	(213%)
Net income	62,980	89,354	(30%)
Net margin (%) <sup>1</sup>	20%	37%	(46%)
Funds from operations <sup>2</sup>	84,455	60,859	39%
Shareholders' equity	1,209,578	1,178,336	3%
Total assets	2,097,473	2,167,050	(3%)
Cash from operations	48,808	18,351	166%

Per Share Data (\$)	2023	2022	Change
Basic earnings	2.04	2.75	(26%)
Diluted earnings	2.03	2.74	(26%)
Funds from operations <sup>3</sup>	2.73	1.88	45%
Book value <sup>3</sup>	39.45	37.71	5%
Dividends	0.64	0.58	10%

1. Supplementary financial measure.  
 2. Non-GAAP financial measure.  
 3. Non-GAAP financial ratio.  
 Refer to the Non-GAAP and Non-Standard Measures section on page 37 of our annual MD&A (available on SedarPlus.com and at Melcor.ca/Investors) for further information.

## BUILDING COMMUNITY

Since 1923, our focus has been the business of real estate. While the specifics of our business have changed over the years to reflect the times, real estate is fundamental to who we are. Today, we are a diversified real estate development and asset management company. We transform raw land into high-quality residential, commercial and mixed-use real estate. We develop and manage master-planned residential communities, business and industrial parks, office buildings, retail commercial centres and golf courses. Melcor owns a diversified portfolio of assets in Alberta, Saskatchewan, British Columbia,

Arizona and Colorado. With over 170 communities and commercial projects developed across western Canada since the 1950s and over 2.5 million square feet in commercial projects built, we have helped to shape much of Alberta's landscape. We manage 4.77 million square feet in commercial real estate assets and 466 residential rental units in the United States and Canada. We are committed to building communities that enrich quality of life.

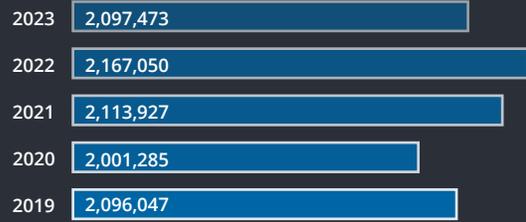
We have been publicly traded since 1968 (TSX:MRD)

## KEY METRICS

### REVENUE



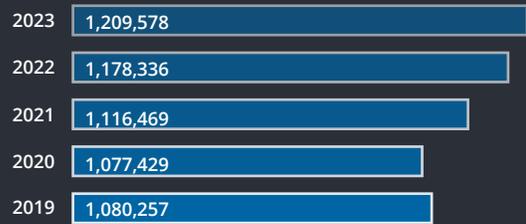
### ASSETS



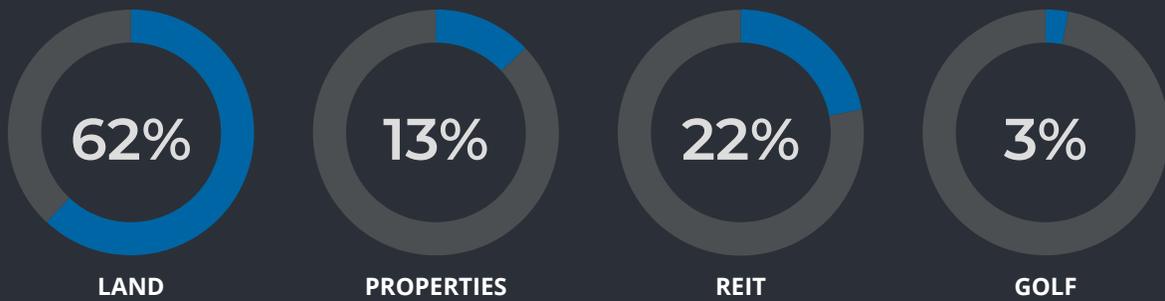
### FUNDS FROM OPERATIONS



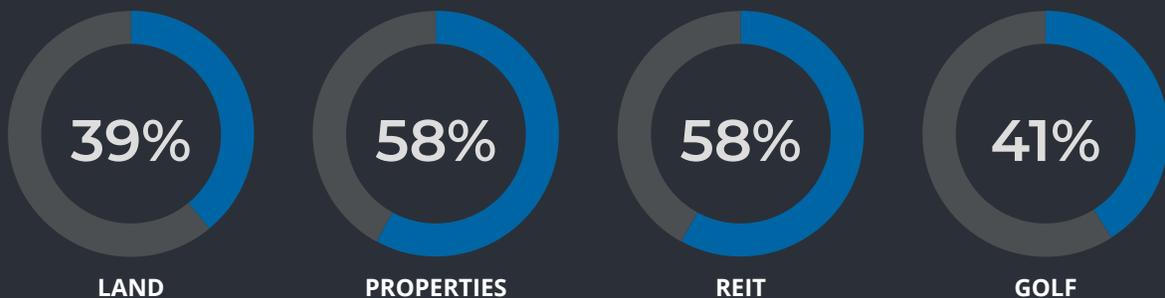
### SHAREHOLDERS' EQUITY



## 2023 REVENUE BY DIVISION



## 2023 GROSS MARGIN BY DIVISION



# LETTER FROM THE EXECUTIVE CHAIR & CEO

On behalf of the Board of Directors, it is my pleasure to report on Melcor's annual results for the company's 100th year of operations concluded on December 31, 2023.

Net earnings for 2023 were \$63 million or \$2.04 per share compared with \$89 million or \$1.88 per share in 2022. Cash flow from operations was \$48.80 million compared with \$18.35 million the prior year.

Considering the overall challenging and ever changing economic environment facing business, particularly the real estate sector, Melcor had relatively successful results. The demand for real estate products is affected by many factors, including interest rates, post pandemic adjustments, immigration, migration, inflation, job creation, demographic changes and factors such as the work from home trend and the growth of online shopping. Depending on the asset mix and geographic location, these factors can have a positive or negative effect on company performance.

The strategic objective for a real estate development company is to successfully identify, acquire and develop properties where there are opportunities, growth and demand. In this regard, Melcor has a reasonably balanced mix of real estate both by product type and geographic region.

Melcor's **Land** development division continues to be the major source of revenue and earnings for the company. The division achieved strong serviced lot sales in 2023. Lot sales in Canada, mainly Alberta, totalled 1,149 and US lot sales of 234 contributed revenue of \$202 million.

Our **Properties** division manages a portfolio of 4.77 million sf of income-producing commercial assets and 466 residential units. These assets are held both directly and through our majority stake in Melcor REIT. Together, our Properties and **REIT** divisions contributed 35% of revenue in 2023.

Commercial income producing real estate, in general, is undergoing a period of negative valuation adjustment due to elevated interest rates and rising operating costs. Currently there is no opportunity to significantly increase revenues because of softer demand from office and retail tenant customers.

In 2023, the Properties division added 22,000 sf to its retail portfolio and at year end 104,000 sf was under development. In light of the above mentioned factors affecting income producing real estate, Melcor is exercising a more selective and cautious strategy regarding commencement of future new developments.

In February 2024, Melcor REIT, of which Melcor owns a controlling interest, responded to the challenges facing income producing real estate by suspending distributions and is focusing on debt reduction. The REIT has also initiated a strategic review process to be conducted under the guidance of an Independent Committee of its Trustees.

Melcor's **Golf** division had another successful year. The number of rounds played remained steady; yet, revenue was up 6% compared to 2022 as a result of growth in food and beverage sales. Gross margin remained stable at 41%.

Melcor remains in a solid financial position. Through 2023, general debt was reduced by \$70 million to minimize the impact of higher interest rates. The company continues to focus on enhancing returns to shareholders, both through dividends and share repurchases. In 2023, the Board of Directors approved dividend payments of \$0.64 per share. Through the NCIB, Melcor repurchased 712,000 shares for \$8.10 million.



**TIMOTHY MELTON**  
EXECUTIVE CHAIR AND CEO

Melcor expresses gratitude to its Board of Directors for their ongoing guidance and commitment. Also, we extend appreciation to our dedicated team of personnel for the excellent job they have done for the company through a difficult period.

A handwritten signature in black ink, appearing to read 'Tim Melton', written in a cursive style.

Tim Melton  
Executive Chair & CEO  
May 14, 2024

# LETTER FROM THE COO & CFO

As we marked our centennial in 2023, we not only celebrated Melcor's rich history but also embraced the evolving challenges and opportunities of today's real estate market. This dual focus on honouring our past while navigating the present shapes every decision we make.

Our full results for 2023 are covered at a high level in Tim's message to shareholders. What I want to share with you are some of the subtle and not-so-subtle shifts in our business in reaction to the prevailing economic environment, and trends in the residential and commercial real estate markets.

Our 2023 results reflect the financial impact of one of the shifts we've anticipated over the past few years: momentum in our Land division swung south to the Calgary region following more than a decade of Edmonton-area dominance. Over the past three years, the Calgary region has launched five new communities, including two in 2023, leading to record revenue contributions from the region. We anticipate this trend continuing as these communities build out.

The other significant shift in our business relates to commercial development. Developing commercial properties is increasingly expensive and therefore difficult to achieve our expected financial returns without significant risk. We will continue to develop commercial property strategically following a careful evaluation of a project's potential return on investment and contribution to our portfolio's long-term resilience; however, we expect the pace of commercial development to slow.

As a result of this shift and to streamline operations, we merged our Investment Properties and Property Development divisions into a single, more efficient Properties division. This reorganization has brought several benefits:

- Business process synergy related to development, leasing, and property management. This integration allows for better coordination and efficiency in managing the full life cycle of real estate development as properties developed by the former Property Development division would transfer to Investment Properties for long-term management.
- Value creation capitalizing on the development team's expertise in development/ redevelopment to increase the value of existing assets, which contributes to higher occupancy and increased rent.
- Streamlined decision-making and control enables Melcor to have a more comprehensive and cohesive approach to managing our real estate assets, from land acquisition to property development, leasing, and ongoing asset management.

Beyond these specific initiatives, Melcor remains committed to the strategies that have contributed to our longevity - conservative financial management, including debt, cost management and strategic investments. Our Land division will continue to

harvest current inventory, now at 9,815 acres. New acquisitions, if any, would be strategic parcels, especially adjacent existing land. Our Properties and REIT divisions will focus on optimizing our current portfolio and are shedding non-core assets. And our Golf division will continue to attract golfers through a fantastic player experience and to provide an inviting neighbourhood food and beverage experience to golfers and the communities that border our golf courses.

The ability to evolve and adapt has been a cornerstone of Melcor's success for 100 years. Along with our disciplined and conservative approach to business and strong balance sheet, we believe that this adaptability will enable Melcor to continue to thrive.

The achievements of the past year were made possible by the unwavering commitment and hard work of the entire Melcor team. I am incredibly proud of our collective efforts and the resilience shown in the face of challenge. As COO and CFO, I have the privilege of witnessing firsthand the dedication and expertise that drive our company forward, and I am deeply grateful for the team's contribution to our continued success.

Looking forward, we are energized by the opportunities ahead. With a strong strategic vision, a robust operational framework, and a dedicated team, we are well-positioned to continue our legacy.



**NAOMI STEFURA**  
CHIEF OPERATING OFFICER & CFO

Thank you to our shareholders, customers, and partners for your continued trust and support. Together, we are creating vibrant communities and delivering excellence across all aspects of our business. Here's to another year of growth, success, and shared achievements.

A handwritten signature in black ink that reads "Naomi Stefura". The signature is fluid and cursive.

Naomi Stefura  
Chief Operating Officer & Chief Financial Officer

May 14, 2024

# CORPORATE GOVERNANCE

---

We are committed to effective corporate governance practices as a core component of our operating philosophy. Strong governance practices lay the foundation for a sustainable company and long-term value creation for our shareholders. As governance practices evolve, we periodically review, evaluate and enhance our governance program. Here are a few highlights of our program:

## INDEPENDENCE

The majority of our directors are independent and our committees are comprised of a majority of independent directors. The independent directors meet in camera (without management and related directors) for a portion of each meeting held. As our Chair is related to Melcor, we have appointed a Lead Director, Cathy Roozen, who is independent of the company. Ms. Roozen chairs the in camera sessions and ensures that the board conducts itself in accordance with good governance practices.

## INTEGRITY: THE HEART OF OUR BUSINESS

The highest standard of ethical conduct has always been at the heart of Melcor's operating philosophy. All employees, directors and officers follow (and annually sign) our Code of Business Conduct and Ethics, which governs Melcor's work environment, regulatory compliance and the protection of our assets and reputation. The Code can be found on our website at [www.melcor.ca](http://www.melcor.ca).

## STRATEGIC PLANNING PROCESS

The board ensures that Melcor establishes a solid strategy designed to optimize shareholder value. This process includes active consultation with management on the issues, business environment, assumptions, goals and financial budgets that underpin the strategy and ensures that risk levels are appropriate. To ensure that the board is fully informed and engaged in the strategic issues and critical risks of our business, one meeting each year is dedicated to the review and approval of our strategic plan to manage risk, protect shareholder value and build a sustainable business.

## ALIGNMENT WITH SHAREHOLDER INTERESTS

Our compensation philosophy is to pay for superior performance. Thus a significant portion of executive compensation is "at risk": tied directly to results and thus linked to Melcor's success. This ensures alignment with shareholder interests and a focus on long-term value creation.

# 2024 BOARD OF DIRECTORS



**Douglas Goss QC, AOE**  
Edmonton, Alberta, Canada

**Independent**  
Counsel, Bryan & Company LLP

Director Since	2021
Attendance	100%
Compensation	\$33,000
Shareholdings	2,500
Committees	Governance



**Andrew Melton**  
Calgary, Alberta, Canada

**Related**  
CEO, Melcor REIT & Corporate Director

Director Since	1985
Attendance	100%
Compensation	\$nil
Shareholdings	228,924
Committees	Investment



**Kathleen Melton ICD.D**  
Calgary, Alberta, Canada

**Related**  
Corporate Director

Director Since	2016
Attendance	100%
Compensation	\$51,000
Shareholdings	42,950
Committees	Governance, Investment



**Timothy Melton**  
Edmonton, Alberta, Canada

**Related**  
Executive Chair & CEO, Melcor

Director Since	1973
Attendance	100%
Compensation	\$nil
Shareholdings	2,312,713
Committees	Investment



**Bruce Pennock CA, CPA**  
Edmonton, Alberta, Canada

**Independent**  
Partner, Pennock Acheson Nielsen Devaney

Director Since	2021
Attendance	100%
Compensation	\$49,500
Shareholdings	5,000
Committees	Audit (Chair)



**Janet Riopel ICD.D**  
Edmonton, Alberta, Canada

**Independent**  
President & CEO, TREYL Communications

Director Since	2022
Attendance	100%
Compensation	\$37,500
Shareholdings	1,750
Committees	Audit



**Catherine Roozen AOE, LLD**  
Edmonton, Alberta, Canada

**Independent | Lead Director**  
Director & Secretary, Cathton Investments

Director Since	2007
Attendance	100%
Compensation	\$55,000
Shareholdings	145,600
Committees	Audit, Governance (Chair)



**Ralph Young PENG, MBA**  
Edmonton, Alberta, Canada

**Independent**  
Corporate Director

Director Since	1976
Attendance	100%
Compensation	\$33,000
Shareholdings	1,405,300
Committees	Governance

# FIVE YEAR PERFORMANCE MEASURES

	2023	% CHANGE	2022	% CHANGE	2021	% CHANGE	2020	% CHANGE	2019
ASSETS (\$000s)	2,097,473	(3.2)%	2,167,050	2.5%	2,113,927	5.6%	2,001,285	(4.5)%	2,096,047
SHAREHOLDERS' EQUITY (\$000s)	1,209,578	2.7%	1,178,336	5.5%	1,116,469	3.6%	1,077,429	(0.3)%	1,080,257
REVENUE (\$000s)	315,239	30.4%	241,747	(23.4)%	315,628	39.2%	226,818	9.1%	207,971
GROSS MARGIN <sup>1</sup>	45.2%		48.9%		44.4%		43.3%		46.5%
ADMINISTRATIVE EXPENSES/REVENUE <sup>1</sup>	7.3%		9.5%		6.9%		8.0%		10.8%
BASIC EARNINGS PER SHARE (\$)	2.04	(25.8)%	2.75	61.8%	1.70	400.0%	0.34		1.13
NET INCOME (\$000s)	62,980	(29.5)%	89,354	58.7%	56,311	391.2%	11,464	(69.9)%	37,741
FFO <sup>2</sup> (\$000s)	84,455	38.8%	60,859	(25.5)%	81,327	58.1%	51,424	34.4%	38,265
FFO PER SHARE <sup>3</sup> (\$)	2.67	42.5%	1.88	(23.8)%	2.46	58.7%	1.55	34.8%	1.15
AVERAGE SHARE PRICE (\$)	11.56	(12.7)%	13.24	4.0%	12.73	55.1%	8.21	(35.9)%	12.81
DIVIDEND PER SHARE (\$)	0.64	10.3%	0.58	31.8%	0.44	29.4%	0.34	(32.0)%	0.50
DIVIDEND YIELD <sup>4</sup>	5.53%		4.38%		3.5%		4.1%		3.9%
BOOK VALUE PER SHARE <sup>5</sup> (\$)	39.45		37.71	11.3%	33.87	4.0%	32.56	0.2%	32.51
AVERAGE BOOK VALUE PER SHARE <sup>5</sup> (\$)	38.73	12.2%	34.50	8.6%	32.66	(1.8)%	33.26	3.6%	32.09
AVERAGE MARKET /AVERAGE BOOK <sup>6</sup> (\$)	0.30		0.38		0.38		0.25		0.40
PRICE/EARNINGS RATIO <sup>7</sup>	5.67	24.3%	4.81		7.49		24.15		11.34
RETURN ON EQUITY <sup>8</sup>	5.21%		7.58%		5.04%		1.06%		3.49%
RETURN ON ASSETS <sup>9</sup>	3.00%		4.13%		2.66%		0.57%		1.80%
DEBT/EQUITY RATIO <sup>10</sup> (EXCLUDING REIT UNITS)	0.69		0.78		0.81		0.80		0.84
ASSET TURNOVER <sup>11</sup>	15.03%		11.16%		14.93%		11.33%		9.92%

1. Supplementary financial measure. Refer to Non-GAAP and Non-Standard Measures in the annual MD&A (page 37).

2. Non-GAAP financial measure. Refer to Non-GAAP and Non-Standard Measures in the annual MD&A (page 37).

3. Non-GAAP financial ratio. Refer to Non-GAAP and Non-Standard Measures in the annual MD&A (page 37).

4. Dividend yield is dividends per share divided by the average share price.

5. Average book value per share is the average of the book values at each quarter end date.

6. Average market/average book is the average share price divided by the average book value per share.

7. Price/earnings ratio is the average share price for the year divided by the basic earnings per share.

8. Return on equity is net income for the year divided by equity at year end.

9. Return on assets is net income for the year divided by assets at year end.

10. Debt/equity ratio is debt, excluding REIT units, divided by shareholders equity.

11. Asset turnover is revenue divided by assets at year end.

## ANNUAL GENERAL MEETING

Melcor will be hosting a virtual AGM this year. Please see the information circular for details on how to participate and vote during the meeting. As usual, there will be a question & answer period following the formal portion of the meeting.

### **Annual Meeting: June 25, 2024 | 11:00 am MT**

Meeting Access: [web.lumiagm.com](http://web.lumiagm.com)

Meeting ID: 234 845 455

Meeting Password: MRD24

### **PROXY DEADLINE:**

**Friday June 21, 2024 | 11:00 am MT**

---

## SHAREHOLDER SERVICES

For shareholder services, including dividend information, change of address and lost share certificates, please contact:

### **Odyssey Trust**

Trader's Bank Building  
702 67 Yonge Street  
Toronto, ON M5E 1J8

1-888-290-1175

<https://odysseycontact.com>

---

## KEY DATES

### **Earnings Dates:**

**Q2-2024** – August 8, 2024

**Q3-2024** – November 7, 2024

**Q4-2024** – TBD

*Dates are subject to change without notice.*

## CORPORATE INFORMATION

### **Melcor Developments Ltd.**

900, 10310 Jasper Avenue  
Edmonton, AB T5J 1Y8

P. 780.423.6931

1.855.673.6931

### **Exchange Listing**

Toronto Stock Exchange: **MRD**

### **Auditors**

PricewaterhouseCoopers LLP

### **Legal Counsel**

Bryan & Company LLP

### **Investor Relations**

P. 1.855.673.6931

[ir@melcor.ca](mailto:ir@melcor.ca)



# MELCOR

Suite 900, 10310 Jasper Avenue  
Edmonton, AB T5J 1Y8

780.423.6931  
1.855.673.6931

[IR@Melcor.ca](mailto:IR@Melcor.ca)  
[www.Melcor.ca](http://www.Melcor.ca)