

## PRESS RELEASE

for immediate distribution

# Melcor Developments announces third quarter results, declares quarterly dividend of \$0.15 per share

Edmonton, Alberta | November 8, 2022

Melcor Developments Ltd. (TSX: MRD), an Alberta-based real estate development and asset management company, today reported results for the third quarter ended September 30, 2022. Revenue was stable at \$165.49 million year-to-date and up 9% at \$61.14 million in the quarter as a result of the cyclical nature of the real estate industry and timing of sales in the current and comparative periods.

Net income was \$23.77 million in Q3-2022 compared to \$16.56 million in Q3-2021. Net income is significantly impacted by swings in non-cash fair value adjustments on investment properties, REIT units and the conversion feature on our convertible debenture. As a result management relies on Funds From Operations (FFO) as a better reflection of Melcor's true operating performance. FFO was up 28% in the quarter to \$16.01 million or \$0.49 per share and down 1% year-to-date to \$38.56 million or \$1.18 per share. Year-to-date FFO was impacted by lease termination fees received in both the REIT (\$1.00 million) and Investment Properties (\$1.94 million) divisions. Adjusting for these one-time events, FFO was up \$2.49 million due to improved gross profit, which is partially offset by higher G&A expenses and distributions on REIT units over 2021.

The number of single-family lots sold in our Community Development division was up in the quarter at 272 and year-to-date at 676 (Q3-2021: 109, YTD-2021: 408). Occupancy in our income-producing divisions (Investment Properties and REIT) increased over year-end to 88% and our retention in the REIT for 2022 is strong at 88%. Our Property Development division completed and transferred one building (12,660 sf) to our Investment Properties division and has a further 51,694 sf under development or awaiting lease-up.

Timothy Melton, Melcor's Executive Chair and Chief Executive Officer, commented: "We are pleased to report Melcor's results for the third quarter of 2022. Generally, results have been satisfactory year-to-date. Revenue, income and cash flow from the Community Development division have been strong in our Canadian regions but relatively weaker in the United States. Rising interest rates have slowed demand in the real estate industry. We expect this trend to negatively impact the market for real estate and serviced lots over the next few quarters.

Revenue and occupancy in our income-producing properties improved modestly in the quarter. Past lockdowns and work-from-home policies were detrimental to many businesses and the commercial real estate sector. With restrictions lifted and life returning to normal, the prospects for commercial real estate may slowly improve.

The Property Development division continues to explore opportunities to construct new projects, focusing on sites that the company owns. Increasing interest rates will make the economic case for new developments more challenging.

The Recreational Properties division had a good year. Weather conditions through the summer and fall were ideal. Playing conditions at the golf courses and a focus on food and beverage operations continued to contribute to success and customer loyalty."

## Third Quarter Results

Given the longer term nature of real estate development, comparison of any three-month period may not be meaningful.

The market continues to be challenged by inflation and rising interest rates. The leasing market has seen added supply in some of our core regions and a shift in demand for product with new construction and remote and hybrid work models following the lifting of work from home restrictions.

Occupancy in our investment properties (including the REIT) increased over year-end to 88.4% (Q4-2021: 84.2%) due to the timing of leasing coming online. Our year-to-date retention for REIT was healthy at 87.9%. Strong leasing activity in our Property Development division continues to drive new development in commercial centres that complement and enhance our communities.

Demand remains stable throughout all regions in our Community Development division with plenty of activity in sales and construction. The US community development model differs from Canadian markets, with the majority of revenue occurring in a single quarter. Builders buy lots in bulk to develop themselves and build homes to sell to homeowners. These are often referred to as "paper lot sales". Due to the bulk selling nature of our US market, no lots have been sold in US year-to-date.

Investment properties GLA increased slightly as a result of property transferred from Property Development over the past 12 months. Revenue from our Income Properties and REIT divisions was up in the quarter compared to Q3-2021. Our year-to date results continue to be impacted by lease termination fees received in our REIT division (\$1.00 million) and Investment Properties division (\$1.94 million) which occurred in Q1-2021.

Our golf courses saw a slight decrease in rounds played to date in 2022 primarily due to late opening dates at the courses. 2021 saw a record breaking number of rounds played as more golfers enjoyed a safe, outdoor activity during government restrictions. This is offset by efforts to focus on the clubhouses and food and beverage services, resulting in higher revenue year-to-date.

## FINANCIAL HIGHLIGHTS

Revenue was up 9% to \$61.14 million in Q3-2022 (Q3-2021: \$56.21 million) and has remained stable year-to-date. The real estate industry can have fluctuations in revenue period over period as a result of the cyclical nature of development. Lot sales, which have a significant impact on quarterly results, are uneven by nature and it is difficult to predict when they will close. Typically we see the most revenue from lot sales in the third and fourth quarters as that is when plans typically register. Year-to-date revenue in Community Development saw a decrease of 5% as a result of US sales recognized in the comparative period. Excluding the US revenues, Canadian Community Development revenue has increased \$9.97 million or 16% over 2021 year-to-date results.

FFO was up 28% or \$3.50 million in the quarter and down 1% or \$0.45 million year-to-date over the comparative period. 2021 year-to-date FFO continues to be impacted by lease termination fees received in both the REIT (\$1.00 million) and Investment Properties (\$1.94 million) divisions. Adjusting for these one-time events, FFO was up \$2.49 million year-to-date compared to 2021.

Improved gross profit both in the quarter and year-to-date have been partially offset by higher G&A expenses which continue to feel inflationary pressures. Distributions to REIT unitholders also increased both in the quarter and year-to-date, which correlates to the distribution increase in the REIT in August 2021.

Net income was \$23.77 million in Q3-2022 compared to \$16.56 million in Q3-2021. Net income is significantly impacted by swings in non-cash fair value adjustments on investment properties, REIT units and the conversion feature on our convertible debenture. The change in the REIT's unit price has a counter-intuitive impact on net income as an increase in unit value decreases net income. These gains are driven by market forces outside of Melcor's control and are a key reason we focus on FFO as a truer measure of our financial performance.

## DIVISIONAL OPERATING HIGHLIGHTS

The Community Development division saw healthy sales activity in our Canadian markets, including satellite communities such as St. Albert, Spruce Grove, Airdrie and Cochrane. Year-to-date, we sold 676 single-family lots compared to 408 last year. We continue to move new communities and additional phases in existing neighbourhoods through the municipal approval process. Our Harmony community in Denver, CO remains the largest land development project in our US region. Sales in this area are often sold in bulk and thus result in lumpy sales being realized in this region. No lots have been sold in the US year-to-date.

The Property Development division currently has 40,911 sf in 2 projects (Clearview Market 2 and Greenwich) under construction, and transferred one CRU (12,660 sf) in Chestermere to our Investment Properties division in the quarter. A further 10,783 sf in Woodbend Market is complete and awaiting lease-up and transfer. Construction and leasing activity resulted in fair value gains of \$0.36 million in the quarter and \$0.77 million year-to-date.

Total GLA under management varies period over period as a result of both property transfers and remeasures of property that typically occur on lease transfers and/or renewals. Revenue in our income-producing divisions (Investment Properties and REIT) continued to produce stable results in both the quarter and year-to-date. Year-to-date results continue to be impacted by early termination fees received in Q1-2021, which are included in other revenue, and the disposition of 11 residential units in the US in late 2021, resulting in reduced revenue. Year-to-date we disposed of 8 residential units in the US. Increased occupancy on our Canadian and US assets contributed positively to revenue. Additionally, REIT occupancy also saw an increase in Q3-2022.

The Investment Property portfolio fair value increased \$2.07 million in Q3-2022. To date in 2022, we have had 46 legal phases valued by external valuation professionals. We have seen some shifts in the market this quarter and a slight increase in capitalization rates on our office properties, which decreases the fair value of an asset, and slight cap rate decreases on our retail portfolio. Fair value is also impacted by increased spend on tenant incentives that did not have a corresponding increase in fair value.

Our Recreational Properties saw a 10% decrease in rounds played to date in 2022 as a result of later course openings compared to 2021. However, revenue increased 4% to \$9.62 million as a result of increased food and beverages sales in our clubhouses and restaurants.

## RETURNING VALUE

We continue to return value to our shareholders and unitholders:

### Melcor Developments:

- We paid a quarterly dividend of \$0.15 per share in September 2022 (year-to-date: \$0.43 per share).
- On November 8, 2022 we declared a quarterly dividend of \$0.15 per share, payable on December 30, 2022 to shareholders of record on December 15, 2022. The dividend is an eligible dividend for Canadian tax purposes.

### Melcor REIT:

- The REIT increased monthly distributions by 14% to \$0.04 per unit in August 2021.
- Subsequent to the quarter, the REIT declared distributions for November and December and will be paying the previously declared October distribution as follows:

| Month         | Declaration Date | Record Date       | Distribution Date | Distribution Amount |
|---------------|------------------|-------------------|-------------------|---------------------|
| October 2022  | August 15, 2022  | October 31, 2022  | November 15, 2022 | \$0.04 per Unit     |
| November 2022 | November 3, 2022 | November 30, 2022 | December 15, 2022 | \$0.04 per Unit     |
| December 2022 | November 3, 2022 | December 30, 2022 | January 16, 2023  | \$0.04 per Unit     |

## Selected Highlights

| (\$000s except as noted)   | Three months ended<br>September 30 |        |          | Nine months ended<br>September 30 |         |          |
|----------------------------|------------------------------------|--------|----------|-----------------------------------|---------|----------|
|                            | 2022                               | 2021   | Change % | 2022                              | 2021    | Change % |
| Revenue                    | <b>61,136</b>                      | 56,213 | 9        | <b>165,486</b>                    | 165,030 | –        |
| Gross margin <sup>1</sup>  | <b>49.3%</b>                       | 47.9%  | 3        | <b>49.1%</b>                      | 48.2%   | 2        |
| Net income                 | <b>23,774</b>                      | 16,561 | 44       | <b>52,152</b>                     | 11,542  | 352      |
| Net margin <sup>1</sup>    | <b>38.9%</b>                       | 29.5%  | 32       | <b>31.5%</b>                      | 7.0%    | 350      |
| FFO <sup>2</sup>           | <b>16,012</b>                      | 12,516 | 28       | <b>38,562</b>                     | 39,016  | (1)      |
| <b>Per Share Data (\$)</b> |                                    |        |          |                                   |         |          |
| Basic earnings             | <b>0.73</b>                        | 0.50   | 46       | <b>1.59</b>                       | 0.35    | 354      |
| Diluted earnings           | <b>0.73</b>                        | 0.50   | 46       | <b>1.59</b>                       | 0.35    | 354      |
| FFO <sup>3</sup>           | <b>0.49</b>                        | 0.38   | 29       | <b>1.18</b>                       | 1.17    | 1        |
| Dividends                  | <b>0.15</b>                        | 0.12   | 25       | <b>0.43</b>                       | 0.32    | 34       |

| As at (\$000s except share and per share amounts) | 30-Sep-2022       | 31-Dec-2021 | Change % |
|---|-------------------|-------------|----------|
| Total assets                                      | <b>2,178,869</b>  | 2,113,927   | 3.1      |
| Shareholders' equity                              | <b>1,159,857</b>  | 1,116,469   | 3.9      |
| Total shares outstanding                          | <b>32,061,202</b> | 32,961,015  | (2.7)    |
| <b>Per Share Data (\$)</b>                        |                   |             |          |
| Book value <sup>(3)</sup>                         | <b>35.55</b>      | 33.87       | 5.0      |

1 Supplementary financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.

2 Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.

3 Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.

### MD&A and Financial Statements

Information included in this press release is a summary of results. This press release should be read in conjunction with Melcor's consolidated financial statements and management's discussion and analysis for the three and nine months ended September 30, 2022, which can be found on the company's website at [www.Melcor.ca](http://www.Melcor.ca) or on SEDAR ([www.sedar.com](http://www.sedar.com)).

### Non-GAAP & Non-Standard Measures

FFO is a key measures of performance used by real estate operating companies; however, that is not defined by International Financial Reporting Standards ("IFRS"), do not have standard meanings and may not be comparable with other industries or income trusts. This non-IFRS measures are more fully defined and discussed in the Melcor's management discussion and analysis for the period ended September 30, 2022, which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

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

## Consolidated

| (\$000s)                                       | Three-months       |                    | Nine-months        |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| <b>Net income for the period</b>               | <b>23,774</b>      | 16,561             | <b>52,152</b>      | 11,542             |
| Amortization of operating lease incentives     | <b>2,738</b>       | 2,102              | <b>5,620</b>       | 5,922              |
| Fair value adjustment on investment properties | <b>(3,070)</b>     | (5,183)            | <b>247</b>         | (10,040)           |
| Depreciation on property and equipment         | <b>533</b>         | 509                | <b>1,141</b>       | 1,107              |
| Stock based compensation expense               | <b>514</b>         | 254                | <b>847</b>         | 762                |
| Non-cash finance costs                         | <b>(2,619)</b>     | (135)              | <b>(7,911)</b>     | 4,147              |
| Gain on sale of asset                          | <b>(29)</b>        | (65)               | <b>(37)</b>        | (127)              |
| Deferred income taxes                          | <b>(126)</b>       | (879)              | <b>11</b>          | (604)              |
| Fair value adjustment on REIT units            | <b>(5,703)</b>     | (648)              | <b>(13,508)</b>    | 26,307             |
| <b>FFO</b>                                     | <b>16,012</b>      | 12,516             | <b>38,562</b>      | 39,016             |

## Investment Properties

| (\$000s)                                       | Three-months       |                    | Nine-months        |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| <b>Segment Earnings</b>                        | <b>2,461</b>       | 4,523              | <b>16,698</b>      | 19,322             |
| Fair value adjustment on investment properties | <b>4,263</b>       | 395                | <b>549</b>         | (3,476)            |
| Amortization of operating lease incentives     | <b>415</b>         | 406                | <b>1,173</b>       | 1,214              |
| <b>Divisional FFO</b>                          | <b>7,139</b>       | 5,324              | <b>18,420</b>      | 17,060             |

## REIT

| (\$000s)                                       | Three-months       |                    | Nine-months        |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| <b>Segment Earnings</b>                        | <b>16,443</b>      | 12,666             | <b>27,238</b>      | 33,691             |
| Fair value adjustment on investment properties | <b>(6,337)</b>     | (2,535)            | <b>2,865</b>       | (2,665)            |
| Amortization of operating lease incentives     | <b>956</b>         | 1,116              | <b>2,763</b>       | 2,967              |
| <b>Divisional FFO</b>                          | <b>11,062</b>      | 11,247             | <b>32,866</b>      | 33,993             |

**Gross margin (%):** Gross margin percent is a supplementary financial measure that indicates the relative efficiency with which we earn revenue. This ratio is calculated by dividing gross profit by revenue.

**Net margin (%):** Net margin percent is a supplementary financial measure that indicates the relative efficiency with which we earn income. This ratio is calculated by dividing net income by revenue.

**Book value per share:** Book value per share is a non-GAAP financial ratio and is calculated as shareholders' equity over number of common shares outstanding.

### About Melcor Developments Ltd.

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

Melcor has been focused on real estate since 1923. The company has built over 140 communities and commercial projects across Western Canada and today manages 4.79 million sf in commercial real estate assets and 585 residential rental units. Melcor is committed to building communities that enrich quality of life - communities where people live, work, shop and play.

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

### Forward Looking Statements

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

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

*This news release and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent Melcor's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Future-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2022 and beyond, future development plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook of our operations.*

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

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

**Contact Information:**

Investor Relations

Tel: 1.855.673.6931

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

# Management's Discussion & Analysis

November 8, 2022

The following discussion of Melcor Developments' (Melcor's) financial condition and results of operations should be read in conjunction with the condensed interim consolidated financial statements and related notes for the three and nine months ended September 30, 2022 and management's discussion & analysis (MD&A) and consolidated financial statements for the fiscal year ended December 31, 2021.

The financial statements underlying this MD&A, including 2021 comparative information, have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting, unless otherwise noted. All dollar amounts included in this MD&A are Canadian dollars unless otherwise specified.

Melcor's Board of Directors approved the content of this MD&A on November 8, 2022 on the recommendation of the Audit Committee.

## Other Information

Additional information about Melcor, including our annual information form, information circular and annual and quarterly reports, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## Non-standard Measures

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

## Forward-looking Statements

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

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

This MD&A and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent Melcor's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Forward-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2022 and beyond, future development plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook of our operations.

By their nature, forward-looking statements require assumptions and involve risks and uncertainties related to the business and general economic environment, many beyond our control. There is significant risk that the predictions, forecasts, valuations, conclusions or projections we make will not prove to be accurate and that our actual results will be materially different from targets, expectations, estimates or intentions expressed in forward-looking statements. We caution readers of this document not to place undue reliance on forward-looking statements. We also caution readers that the COVID-19 pandemic resulted in both new and increased risk. We feel that the worst is now behind us with the lifting of restrictions however have seen economic impacts such as rising interest rates and inflation. Assumptions about the performance of the Canadian and US economies and how this performance will affect Melcor's business are material factors we consider in determining our forward-looking statements. For additional information regarding material risks and assumptions, please see the discussion under Business Environment and Risks in our annual MD&A and the updated risk disclosure contained in the Business Environment & Risks section contained in this MD&A.

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

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# Our Business

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

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

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

- acquiring raw land and planning residential communities and commercial developments (Community Development)
- project managing development, leasing and construction of commercial properties (Property Development)
- operating a portfolio of commercial and residential properties, focused on property improvements and capital appreciation of owned properties and property management of REIT owned properties (Investment Properties)
- acquiring and owning high quality leasable commercial and residential sites (the REIT)

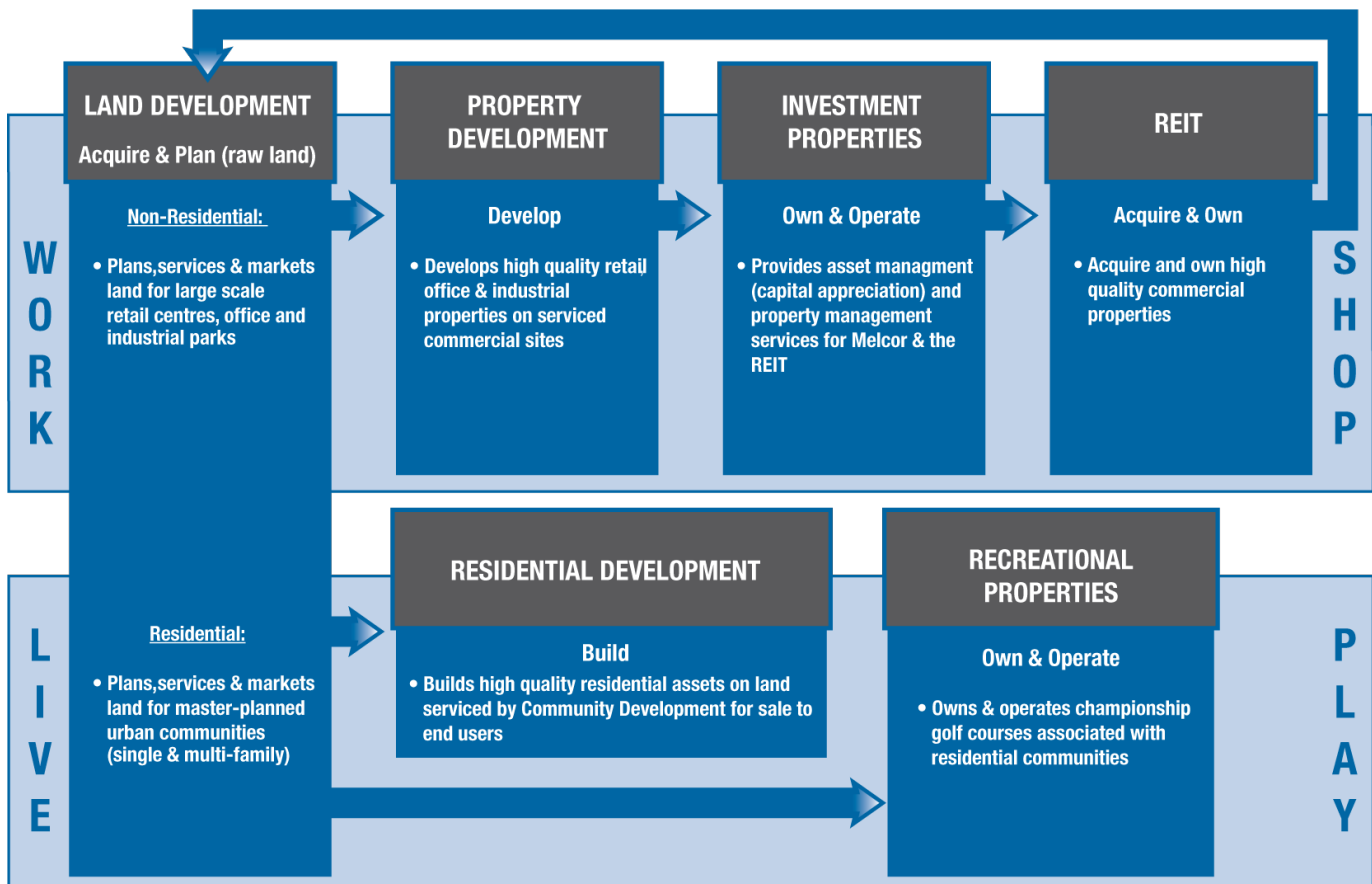
In addition, we own and operate championship golf courses associated with our residential communities in our fifth division, Recreational Properties. Melcor has \$2.18 billion in assets.

The diagram below illustrates how each of our operating divisions complements one another to create and enhance value from our real estate assets.

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

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

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





## Glossary of Acronyms

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

## Third Quarter Highlights

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

| (\$000s except as noted)  | Three months ended<br>September 30 |        |          | Nine months ended<br>September 30 |         |          |
|---------------------------|------------------------------------|--------|----------|-----------------------------------|---------|----------|
|                           | 2022                               | 2021   | Change % | 2022                              | 2021    | Change % |
| Revenue                   | <b>61,136</b>                      | 56,213 | 9        | <b>165,486</b>                    | 165,030 | –        |
| Gross margin <sup>1</sup> | <b>49.3%</b>                       | 47.9%  | 3        | <b>49.1%</b>                      | 48.2%   | 2        |
| Net income                | <b>23,774</b>                      | 16,561 | 44       | <b>52,152</b>                     | 11,542  | 352      |
| Net margin <sup>1</sup>   | <b>38.9%</b>                       | 29.5%  | 32       | <b>31.5%</b>                      | 7.0%    | 350      |
| FFO <sup>2</sup>          | <b>16,012</b>                      | 12,516 | 28       | <b>38,562</b>                     | 39,016  | (1)      |
| Per Share Data (\$)       |                                    |        |          |                                   |         |          |
| Basic earnings            | <b>0.73</b>                        | 0.50   | 46       | <b>1.59</b>                       | 0.35    | 354      |
| Diluted earnings          | <b>0.73</b>                        | 0.50   | 46       | <b>1.59</b>                       | 0.35    | 354      |
| FFO <sup>3</sup>          | <b>0.49</b>                        | 0.38   | 29       | <b>1.18</b>                       | 1.17    | 1        |
| Dividends                 | <b>0.15</b>                        | 0.12   | 25       | <b>0.43</b>                       | 0.32    | 34       |

| As at (\$000s except share and per share amounts) | 30-Sep-2022       | 31-Dec-2021 | Change % |
|---|-------------------|-------------|----------|
| Total assets                                      | <b>2,178,869</b>  | 2,113,927   | 3.1      |
| Shareholders' equity                              | <b>1,159,857</b>  | 1,116,469   | 3.9      |
| Total shares outstanding                          | <b>32,061,202</b> | 32,961,015  | (2.7)    |
| Per Share Data (\$)                               |                   |             |          |
| Book value <sup>(3)</sup>                         | <b>35.55</b>      | 33.87       | 5.0      |

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

Given the longer term nature of real estate development, comparison of any three-month period may not be meaningful.

The market continues to be challenged by inflation and rising interest rates. The leasing market has seen added supply in some of our core regions and a shift in demand for product with new construction and remote and hybrid work models following the lifting of work from home restrictions.

Occupancy in our investment properties (including the REIT) increased over year-end to 88.4% (Q4-2021: 84.2%) due to the timing of leasing coming online. Our year-to-date retention for REIT was healthy at 87.9%. Strong leasing activity in our Property Development division continues to drive new development in commercial centres that complement and enhance our communities.

Demand remains stable throughout all regions in our Community Development division with plenty of activity in sales and construction. The US community development model differs from Canadian markets, with the majority of revenue occurring in a single quarter. Builders buy lots in bulk to develop themselves and build homes to sell to homeowners. These are often referred to as "paper lot sales". Due to the bulk selling nature of our US market, no lots have been sold in US year-to-date.

Investment properties GLA increased slightly as a result of property transferred from Property Development over the past 12 months. Revenue from our Income Properties and REIT divisions was up in the quarter compared to Q3-2021. Our 2021 year-to-date results continue to be impacted by lease termination fees received in our REIT division (\$1.00 million) and Investment Properties division (\$1.94 million) which occurred in Q1-2021.

Our golf courses saw a slight decrease in rounds played to date in 2022 primarily due to late opening dates at the courses. 2021 saw a record breaking number of rounds played as more golfers enjoyed a safe, outdoor activity during government restrictions. This is offset by efforts to focus on the clubhouses and food and beverage services.

### FINANCIAL HIGHLIGHTS

Revenue was up 9% to \$61.14 million in Q3-2022 (Q3-2021: \$56.21 million) and has remained stable year-to-date. The real estate industry can have fluctuations in revenue period over period as a result of the cyclical nature of development. Lot sales, which have a significant impact on quarterly results, are uneven by nature and it is difficult to predict when they will close. Typically we see the most revenue from lot sales in the third and fourth quarters as that is when plans typically register. Year-to-date revenue in Community Development saw a decrease of 5% as a result of US sales recognized in the comparative period. Excluding the US revenues, Canadian Community Development revenue has increased \$9.97 million or 16% over 2021 year-to-date results.

FFO was up 28% or \$3.50 million in the quarter and down 1% or \$0.45 million year-to-date over the comparative period. 2021 year-to-date FFO continues to be impacted by lease termination fees received in both the REIT (\$1.00 million) and Investment Properties (\$1.94 million) divisions. Adjusting for these one-time events, FFO was up \$2.49 million year-to-date compared to 2021.

Improved gross profit both in the quarter and year-to-date have been partially offset by higher G&A expenses which continue to feel inflationary pressures. Distributions to REIT unitholders also



increased both in the quarter and year-to-date, which correlates to the distribution increase in the REIT in August 2021.

Net income was \$23.77 million in Q3-2022 compared to \$16.56 million in Q3-2021. Net income is significantly impacted by swings in non-cash fair value adjustments on investment properties, REIT units and the conversion feature on our convertible debenture. The change in the REIT's unit price has a counter-intuitive impact on net income as an increase in unit value decreases net income. These gains are driven by market forces outside of Melcor's control and are a key reason we focus on FFO as a truer measure of our financial performance.

## DIVISIONAL OPERATING HIGHLIGHTS

The **Community Development** division saw healthy sales activity in our Canadian markets, including satellite communities such as St. Albert, Spruce Grove, Airdrie and Cochrane. Year-to-date, we sold 676 single-family lots compared to 408 last year. We continue to move new communities and additional phases in existing neighbourhoods through the municipal approval process. Our Harmony community in Denver, CO remains the largest land development project in our US region. Sales in this area are often sold in bulk and thus result in lumpy sales being realized in this region. No lots have been sold in the US year-to-date.

The **Property Development** division currently has 40,911 sf in 2 projects (Clearview Market 2 and Greenwich) under construction, and transferred one CRU (12,660 sf) in Chestermere to our Investment Properties division in the quarter. A further 10,783 sf in Woodbend Market is complete and awaiting lease-up and transfer. Construction and leasing activity resulted in fair value gains of \$0.36 million in the quarter and \$0.77 million year-to-date.

Total GLA under management varies period over period as a result of both property transfers and remeasures of property that typically occur on lease transfers and/or renewals. Revenue in our income-producing divisions (**Investment Properties** and **REIT**) continued to produce stable results in both the quarter and year-to-date. Year-to-date results continue to be impacted by early termination fees received in Q1-2021, which are included in other revenue, and the disposition of 11 residential units in the US in late 2021, resulting in reduced revenue. Year-to-date we disposed of 8 residential units in the US. Increased occupancy on our Canadian and US assets contributed positively to revenue. Additionally, REIT occupancy also saw an increase in Q3-2022.

The Investment Property portfolio fair value increased \$2.07 million in Q3-2022. To date in 2022, we have had 46 legal phases valued by external valuation professionals. We have seen some shifts in the market this quarter and a slight increase in capitalization rates on our office properties, which decreases the fair value of an asset, and slight cap rate decreases on our retail portfolio. Fair value is also impacted by increased spend on tenant incentives that did not have a corresponding increase in fair value.

Our **Recreational Properties** saw a 10% decrease in rounds played to date in 2022 as a result of later course openings compared to 2021. However, revenue increased 4% to \$9.62 million as a result of increased food and beverages sales in our clubhouses and restaurants.

## RETURNING VALUE

We continue to return value to our shareholders and unitholders:

### Melcor Developments:

- We paid a quarterly dividend of \$0.15 per share in September 2022 (year-to-date: \$0.43 per share).
- On November 8, 2022 we declared a quarterly dividend of \$0.15 per share, payable on December 30, 2022 to shareholders of record on December 15, 2022. The dividend is an eligible dividend for Canadian tax purposes.

### Melcor REIT:

- The REIT increased monthly distributions by 14% to \$0.04 per unit in August 2021.
- Subsequent to the quarter, the REIT declared distributions for November and December and will be paying the previously declared October distribution as follows:

| Month         | Declaration Date | Record Date       | Distribution Date | Distribution Amount |
|---------------|------------------|-------------------|-------------------|---------------------|
| October 2022  | August 15, 2022  | October 31, 2022  | November 15, 2022 | \$0.04 per Unit     |
| November 2022 | November 3, 2022 | November 30, 2022 | December 15, 2022 | \$0.04 per Unit     |
| December 2022 | November 3, 2022 | December 30, 2022 | January 16, 2023  | \$0.04 per Unit     |

## REVENUE & MARGINS

Revenue was up 9% to \$61.14 million compared to Q3-2021, and consistent at \$165.49 million year-to-date. The increase in revenue in the quarter was primarily in our Investment Property division, which increased 25% to \$11.59 million compared to Q3-2021. Community Development revenue varies quarter over quarter due to the timing of lot sales and plan registrations which often happen in the later half of the year following the construction season. Revenue from single-family lot sales in Canada was \$65.37 million year-to-date, up from \$58.95 million in 2021. Community Development division revenue is highly dependent on the demand for new homes in the regions where we hold land, the timing of raw, commercial and multi-family land sales, and the timing of registration on single-family lots.

Our income-generating divisions (**Investment Properties** and **REIT**) accounted for 53% of year-to-date revenue after intersegment eliminations compared with 51% in 2021. To date in 2022, revenue from our income-generating divisions was \$87.46 million compared with \$84.98 million in 2021 and maintained a steady 59% gross margin. Our year-to date comparative results continue to be impacted by lease termination fees received in both our REIT division (\$1.00 million) and Investment Properties division (\$1.94 million) which occurred in Q1-2021.

Consolidated gross margin increased to 49% in Q3-2022 (Q3-2021: 48%) and 49% year-to-date (YTD-2021: 48%). This increase is due to a shift in proportionate gross profit contributed from the income-generating divisions compared to prior year. Our IP and REIT divisions tend to generate higher margins than our Community Development division.

Net income is impacted by non-cash fair value adjustments on investment properties, REIT units and the conversion feature on our convertible debenture, which can result in wide swings from period to period. These adjustments are primarily driven by market forces outside of Melcor's control. Management believes that FFO (discussion follows) is a more accurate reflection of our true operating performance.

Revenue and net income can also fluctuate significantly from quarter to quarter due to the timing of plan registrations, the

cyclical nature of real estate and construction markets, and the mix of lot sales and product types. The growth of our income-generating divisions offsets this cyclicity and has been a key diversification strategy over the past decade.

## Funds From Operations (FFO)

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

Below is a reconciliation of net income to FFO:

| (\$000s)                                       | Three months ended<br>September 30 |         | Nine months ended<br>September 30 |          |
|--|------------------------------------|---------|-----------------------------------|----------|
|  | 2022                               | 2021    | 2022                              | 2021     |
| <b>Net income for the period</b>               | <b>23,774</b>                      | 16,561  | <b>52,152</b>                     | 11,542   |
| Amortization of tenant incentives              | <b>2,738</b>                       | 2,102   | <b>5,620</b>                      | 5,922    |
| Fair value adjustment on investment properties | <b>(3,070)</b>                     | (5,183) | <b>247</b>                        | (10,040) |
| Depreciation on property and equipment         | <b>533</b>                         | 509     | <b>1,141</b>                      | 1,107    |
| Stock based compensation expense               | <b>514</b>                         | 254     | <b>847</b>                        | 762      |
| Non-cash finance costs                         | <b>(2,619)</b>                     | (135)   | <b>(7,911)</b>                    | 4,147    |
| Gain on sale of asset                          | <b>(29)</b>                        | (65)    | <b>(37)</b>                       | (127)    |
| Deferred income taxes                          | <b>(126)</b>                       | (879)   | <b>11</b>                         | (604)    |
| Fair value adjustment on REIT units            | <b>(5,703)</b>                     | (648)   | <b>(13,508)</b>                   | 26,307   |
| <b>FFO<sup>1</sup></b>                         | <b>16,012</b>                      | 12,516  | <b>38,562</b>                     | 39,016   |
| <b>FFO per share<sup>2</sup></b>               | <b>0.49</b>                        | 0.38    | <b>1.18</b>                       | 1.17     |

<sup>1</sup> Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.

<sup>2</sup> Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.

FFO was up 28% or \$3.50 million in the quarter and down 1% or \$0.45 million year-to-date. Improved gross profit in the quarter was partially offset by higher G&A expenses which continue to feel inflationary pressures and have also been impacted by higher professional fees (including appraisals, audit and legal costs) over the comparative quarter.

2021 year-to-date FFO continues to be impacted by lease termination fees received in both the REIT (\$1.00 million) and Investment Properties (\$1.94 million) divisions. Adjusting for these one-time events, FFO was up \$2.49 million year-to-date compared to 2021. Similar to the quarter, we saw improved gross profit year-to-date which excluding the comparative period lease fees was up \$4.38 million. G&A increases and higher distributions to REIT unitholders (included in adjustments related to REIT units) offset the higher gross profit. Increases in G&A are largely due to inflation and the reversal of pandemic related cost saving measures.

As real estate development is long term in nature, comparison of any three-month period may not be as meaningful as full year results.

## Divisional Results

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

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

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

The following table summarize the results of our operating divisions:

| (\$000s except as noted)                       | Community Development      |          | Property Development       |         | Investment Properties      |         | REIT                       |         | Recreational Properties    |         |
|--|----------------------------|----------|----------------------------|---------|----------------------------|---------|----------------------------|---------|----------------------------|---------|
|  | Three months September 30, |          | Three months September 30, |         | Three months September 30, |         | Three months September 30, |         | Three months September 30, |         |
|  | 2022                       | 2021     | 2022                       | 2021    | 2022                       | 2021    | 2022                       | 2021    | 2022                       | 2021    |
| Revenue  | 28,411                     | 26,441   | 3,310                      | 8,740   | 11,593                     | 9,272   | 18,189                     | 18,089  | 4,857                      | 4,658   |
| Portion of total revenue %                     | 43 %                       | 39 %     | 5 %                        | 13 %    | 17 %                       | 14 %    | 27 %                       | 27 %    | 7 %                        | 7 %     |
| Cost of sales                                  | (17,211)                   | (16,453) | (3,200)                    | (8,700) | (4,372)                    | (3,884) | (7,307)                    | (7,248) | (2,644)                    | (2,406) |
| Gross profit                                   | 11,200                     | 9,988    | 110                        | 40      | 7,221                      | 5,388   | 10,882                     | 10,841  | 2,213                      | 2,252   |
| Gross margin % <sup>1</sup>                    | 39 %                       | 38 %     | 3 %                        | – %     | 62 %                       | 58 %    | 60 %                       | 60 %    | 46 %                       | 48 %    |
| Portion of total margin <sup>1</sup>           | 35 %                       | 35 %     | – %                        | – %     | 23 %                       | 19 %    | 34 %                       | 38 %    | 7 %                        | 8 %     |
| General and administrative expense             | (1,942)                    | (1,820)  | (465)                      | (431)   | (505)                      | (470)   | (783)                      | (717)   | (845)                      | (777)   |
| Fair value adjustment on investment properties | –                          | –        | 356                        | 2,272   | (4,263)                    | (395)   | 6,337                      | 2,535   | –                          | –       |
| Gain on sale of assets                         | –                          | –        | –                          | –       | –                          | –       | –                          | –       | 29                         | 65      |
| Interest income                                | 661                        | 142      | 2                          | –       | 8                          | –       | 7                          | 7       | 1                          | –       |
| Segment earnings                               | 9,919                      | 8,310    | 3                          | 1,881   | 2,461                      | 4,523   | 16,443                     | 12,666  | 1,398                      | 1,540   |

| (\$000s except as noted)                       | Community Development    |          | Property Development     |          | Investment Properties    |          | REIT                     |          | Recreational Properties  |         |
|--|--------------------------|----------|--------------------------|----------|--------------------------|----------|--------------------------|----------|--------------------------|---------|
|  | Nine months September 30 |          | Nine months September 30 |          | Nine months September 30 |          | Nine months September 30 |          | Nine months September 30 |         |
|  | 2022                     | 2021     | 2022                     | 2021     | 2022                     | 2021     | 2022                     | 2021     | 2022                     | 2021    |
| Revenue  | 74,662                   | 78,832   | 7,124                    | 12,011   | 32,156                   | 29,430   | 55,308                   | 55,552   | 9,619                    | 9,291   |
| Portion of total revenue %                     | 42 %                     | 43 %     | 4 %                      | 6 %      | 18 %                     | 16 %     | 31 %                     | 30 %     | 5 %                      | 5 %     |
| Cost of sales                                  | (45,459)                 | (49,583) | (6,900)                  | (11,900) | (12,722)                 | (11,953) | (22,846)                 | (22,331) | (5,021)                  | (4,754) |
| Gross profit                                   | 29,203                   | 29,249   | 224                      | 111      | 19,434                   | 17,477   | 32,462                   | 33,221   | 4,598                    | 4,537   |
| Gross margin % <sup>1</sup>                    | 39 %                     | 37 %     | 3 %                      | 1 %      | 60 %                     | 59 %     | 59 %                     | 60 %     | 48 %                     | 49 %    |
| Portion of total margin <sup>1</sup>           | 34 %                     | 35 %     | – %                      | – %      | 23 %                     | 21 %     | 38 %                     | 39 %     | 5 %                      | 5 %     |
| General and administrative expense             | (5,586)                  | (5,071)  | (1,664)                  | (1,344)  | (2,201)                  | (1,632)  | (2,381)                  | (2,215)  | (2,070)                  | (1,953) |
| Fair value adjustment on investment properties | –                        | –        | 766                      | 1,133    | (549)                    | 3,476    | (2,865)                  | 2,665    | –                        | –       |
| Gain on sale of assets                         | –                        | –        | –                        | –        | –                        | –        | –                        | –        | 37                       | 127     |
| Interest income                                | 973                      | 405      | 2                        | –        | 14                       | 1        | 22                       | 20       | 2                        | –       |
| Segment earnings (loss)                        | 24,590                   | 24,583   | (672)                    | (100)    | 16,698                   | 19,322   | 27,238                   | 33,691   | 2,567                    | 2,711   |

Divisional results are shown before intersegment eliminations and exclude corporate division.

<sup>1</sup> Supplementary financial measure. Refer to Non-GAAP and Non-Standard Measures section for further details.

## Community Development

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

commercial/industrial centres). The division also sells sites to our Property Development division, which in turn develops commercial properties on the land.

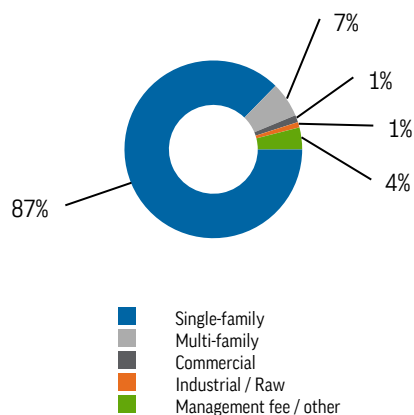
Master-planned mixed-use residential communities comprise the majority of Community Development's portfolio. We create efficient and sustainable urban communities by establishing an overall vision for each community and the amenities that will make it a desirable place to live. Residential lots and multi-family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

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

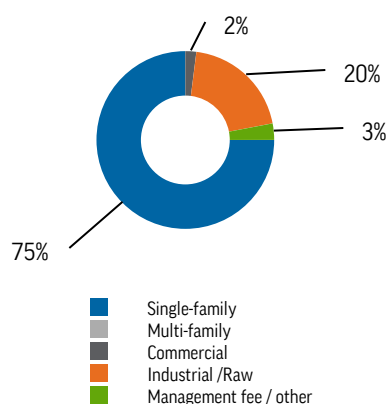
## Sales Activity

### REVENUE BY TYPE

Nine months ended September 30, 2022



Nine months ended September 30, 2021



Community Development division revenue is cyclical in nature and highly dependent on the demand for new homes in the regions where we hold land as well as the timing of single-family lot registrations, and the timing of raw, commercial, industrial and multi-family land sales. Because of this, Community Development revenue and income can fluctuate significantly from period to period.

| Consolidated   | Three months ended<br>September 30 |         | Nine months ended<br>September 30 |         |
|--|------------------------------------|---------|-----------------------------------|---------|
|  | 2022                               | 2021    | 2022                              | 2021    |
| <b>Canada Sales data: (including joint ventures at 100%)</b>                           |                                    |         |                                   |         |
| Single-family sales (number of lots)   | 272                                | 109     | 676                               | 408     |
| Gross average revenue per single-family lot (\$)                                       | 138,464                            | 167,949 | 150,763                           | 206,202 |
| Multi-family sales (acres)   | —                                  | —       | 13.07                             | —       |
| Gross average revenue per multi-family acre (\$)                                       | —                                  | —       | 802,357                           | —       |
| Commercial sales (acres)   | —                                  | —       | 1.91                              | 4.95    |
| Gross average revenue per commercial land acre (\$)                                    | —                                  | —       | 512,304                           | 573,080 |
| Industrial sales (acres)   | —                                  | —       | 0.95                              | 1.29    |
| Gross average revenue per industrial land acre (\$)                                    | —                                  | —       | 452,631                           | 325,581 |
| Land sales to government bodies - raw, other (acres)                                   | 0.35                               | —       | 0.85                              | 14.88   |
| Gross average revenue per other land acre (\$)   | 175,997                            | —       | 95,999                            | 92,133  |
| Other land sales - raw, other (acres)  | —                                  | —       | —                                 | 1.57    |
| Gross average revenue per other land acre (\$)   | —                                  | —       | —                                 | 31,357  |
| <b>US Sales data:</b>  |                                    |         |                                   |         |
| Other land sales - raw (paper lots), other   | —                                  | 293     | —                                 | 293     |
| Gross average revenue per paper lot (\$)   | —                                  | 47,250  | —                                 | 47,250  |
| <b>Divisional results: (including joint ventures at Melcor's interest)<sup>1</sup></b> |                                    |         |                                   |         |
| Revenue (\$000s)   | 28,411                             | 26,441  | 74,662                            | 78,832  |
| Earnings (\$000s)  | 9,919                              | 8,310   | 24,590                            | 24,583  |

1. The number of lots and acres in the table above includes joint ventures at 100%; however, revenue and earnings are reported at Melcor's interest.

Single-family lot sales increased in the quarter with 272 single-family lots sold in Q3-2022 (Q3-2021: 109). Year-to-date, single-family lot sales increased to 676 compared to 408 in 2021. The Edmonton region contributed the largest volume of single-family lot sales year-to-date at 347 (YTD-2021: 193) In the quarter, Calgary had the largest number of regional sales with 175 in the quarter (Q3-2021: 62). Lanark Landing and Cobblestone Creek, both located in Airdrie, AB had new phases register in the quarter and brought in sales of 70 and 80 lots for the Calgary region, respectively.

There were no multi-family land sales in the quarter. Year-to-date we sold 13.07 acres of multi-family land for revenue of \$4.82 million, at joint venture interest. Included in the 13.07 acres is 7.77 acres sold in the Edmonton region (Windermere at Glenridding and Rosenthal) and 5.30 acres sold in Lethbridge (Legacy Ridge).

The US Community Development model differs from Canadian markets, with the majority of revenue occurring in a single quarter. Builders buy lots in bulk to develop themselves and build homes to sell to homeowners. These are often referred to as "paper lot sales". Due to the bulk selling nature of our Harmony in Denver, CO, no lots have been sold in US year-to-date.

In the quarter we sold 0.35 acres of land to government bodies. Year-to-date, we sold 0.85 acres to government bodies, 1.91 acres of commercial land, and 0.95 acres of industrial land which contributed \$1.49 million in revenue for our Community Development division.

Land sales, including commercial, multi-family and industrial sites, tend to vary quarter over quarter and can lead to lumpy revenue.

Our construction program has been active in 2022 with 15 new phases registered in 12 communities year-to-date. We expect to register 11 additional phases before the end of 2022.

The gross margin for the Community Development division is strongly impacted by the mix of both product type and location of inventory sold. Gross margin improved to 39% in Q3-2022 and 39% year-to-date (Q3-2021: 38%; YTD-2021: 37%).

The average sale price on single-family lots decreased 27% from Q3-2021 primarily due to a larger volume of estate lot sales in the Kelowna region in 2021, pushing up the margin in the comparative period. Single-family lot sales cover a wide mix of product categories at various price points in 2022 thus far, from starter town homes and duplexes to lakefront estate lots.

In the US, no single-family or paper lots have been sold year-to-date. Year-to-date in 2021, we sold 293 paper lots (79 acres) in Goodyear, AZ, which generated \$13.84 million (US\$10.99 million) in revenue. We are actively marketing and working on final approvals for all of our land assets in the US. We intend to sell many of these projects as paper lots, which means we do not plan to develop them ourselves. While we may participate in strategic land purchase opportunities, our primary focus is on harvesting our current inventory.

We continue to develop new phases in communities where demand is evident. We remain committed to managing our risk in uncertain markets by ensuring that market demand is in place prior to proceeding with development, and by ensuring that our product mix is aligned with current market preferences.

### Regional Sales Analysis

A summary of our lot and acre sales by region is as follows:

| <i>(including joint ventures at 100%)</i> | Three months ended   |                      |               | Three months ended   |                      |               |
|---|----------------------|----------------------|---------------|----------------------|----------------------|---------------|
|   | September 30, 2022   |                      |               | September 30, 2021   |                      |               |
|   | Single-family (Lots) | Multi-family (Acres) | Other (Acres) | Single-family (Lots) | Multi-family (Acres) | Other (Acres) |
| Edmonton Region                           | 59                   | –                    | –             | 34                   | –                    | –             |
| Red Deer                                  | 15                   | –                    | –             | 10                   | –                    | –             |
| Calgary Region                            | 175                  | –                    | 0.35          | 62                   | –                    | –             |
| Lethbridge                                | 22                   | –                    | –             | –                    | –                    | –             |
| Kelowna                                   | 1                    | –                    | –             | 3                    | –                    | –             |
| United States                             | –                    | –                    | –             | –                    | –                    | 79.00         |
|   | <b>272</b>           | <b>–</b>             | <b>0.35</b>   | 109                  | –                    | 79.00         |

| <i>(including joint ventures at 100%)</i> | Nine months ended    |                      |               | Nine months ended    |                      |               |
|---|----------------------|----------------------|---------------|----------------------|----------------------|---------------|
|   | September 30, 2022   |                      |               | September 30, 2021   |                      |               |
|   | Single-family (Lots) | Multi-family (Acres) | Other (Acres) | Single-family (Lots) | Multi-family (Acres) | Other (Acres) |
| Edmonton Region                           | 347                  | 7.77                 | 0.95          | 193                  | –                    | 9.75          |
| Red Deer                                  | 41                   | –                    | 1.91          | 51                   | –                    | 9.87          |
| Calgary Region                            | 238                  | –                    | 0.35          | 82                   | –                    | 1.50          |
| Lethbridge                                | 34                   | 5.30                 | –             | 7                    | –                    | –             |
| Kelowna                                   | 16                   | –                    | –             | 75                   | –                    | 1.57          |
| Saskatchewan                              | –                    | –                    | 0.5           | –                    | –                    | –             |
| United States                             | –                    | –                    | –             | –                    | –                    | 79.00         |
|   | <b>676</b>           | <b>13.07</b>         | <b>3.71</b>   | 408                  | –                    | 101.69        |

Single-family lot sales may vary significantly quarter over quarter as plan registrations typically occur in the latter half of the year. Year-to-date, lot sales were up in major Alberta regions including Edmonton, Calgary and Lethbridge.

Sales remain strong in all areas that have available inventory.

### Inventory

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

| <i>(including joint ventures at 100%)</i> | Nine months ended    |                      |               | Nine months ended    |                      |               |
|---|----------------------|----------------------|---------------|----------------------|----------------------|---------------|
|   | September 30, 2022   |                      |               | September 30, 2021   |                      |               |
|   | Single-family (Lots) | Multi-family (Acres) | Other (Acres) | Single-family (Lots) | Multi-family (Acres) | Other (Acres) |
| Open                                      | 685                  | 61.71                | 123.30        | 652                  | 59.00                | 126.09        |
| Purchases                                 | –                    | –                    | –             | 1                    | –                    | –             |
| New developments                          | 485                  | 5.46                 | 1.91          | 215                  | –                    | 3.45          |
| Redevelopment                             | 36                   | (3.34)               | –             | –                    | –                    | –             |
| Internal sales                            | –                    | –                    | –             | –                    | –                    | (4.95)        |
| Sales                                     | (676)                | (13.07)              | (2.86)        | (408)                | –                    | (1.29)        |
|   | <b>530</b>           | <b>50.76</b>         | <b>122.35</b> | 460                  | 59.00                | 123.30        |

We strategically monitor inventory levels and bring on appropriately sized new phases where market demand dictates. In Q1-2022, we rezoned a 3.34 acre site into 36 new single-family lots in the Edmonton region to adjust our land holdings to changing market demands.

### Raw land inventory

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

To date in 2022 we have purchased two parcels of land totaling 13.01 acres in Buckeye, Arizona for \$4.25 million (US \$3.30 million). In the comparative period in 2021 we purchased 17.10

acres of land also in Buckeye, Arizona for \$3.04 million (US \$2.45 million).

We continue to monitor our land holdings and manage our cash position in order to capitalize on land acquisition opportunities as they arise.

## Property Development

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

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

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

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

Management fee revenue is comprised of fees paid by joint arrangement partners and is a percentage of total development costs incurred, which fluctuate period to period depending on the development stage of active projects. Fees are also collected in Property Development on large tenant work done for Investment Properties and REIT divisions.

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

### Division Highlights

| (\$000s and at JV%, except as noted)      | Three months ended |             |
|---|--------------------|-------------|
|   | 30-Sep-2022        | 30-Sep-2021 |
| Total revenue                             | 3,310              | 8,740       |
| Revenue from property transfers           | 3,200              | 8,700       |
| Management fees revenue                   | 110                | 40          |
| Margin (%) on property transfers          | 22 %               | 14 %        |
| Square footage transferred (sf, at 100%)  | 12,660             | 16,348      |
| Number of buildings transferred           | 1                  | 1           |
| Fair value gains on investment properties | 356                | 2,272       |

| (\$000s and at JV%, except as noted)      | Nine months ended |             |
|---|-------------------|-------------|
|   | 30-Sep-2022       | 30-Sep-2021 |
| Total revenue                             | 7,124             | 12,011      |
| Revenue from property transfers           | 6,900             | 11,900      |
| Management fees revenue                   | 224               | 111         |
| Margin (%) on property transfers          | 16 %              | 13 %        |
| Square footage transferred (sf, at 100%)  | 19,709            | 22,865      |
| Number of buildings transferred           | 2                 | 2           |
| Fair value gains on investment properties | 766               | 1,133       |

In the quarter, Property Development completed and transferred one CRU (12,660 sf) for \$3.20 million in our Chestermere Station development. Year-to-date, we have transferred two CRU's (19,709 sf) for \$6.90 million.

We have had a busy third quarter in both planning and construction in Property Development. In Clearview Market 2 (Red Deer, AB) we have two single use CRUs under construction including a BMO bank and a Starbucks coffee shop. In Greenwich (Calgary, AB) we have commenced construction on two multi-tenant CRU sites. In our Woodbend community (Leduc, AB) we have finished planning and subsequent to the quarter end we began construction on both a Shoppers Drug Mart as well as a connected CRU building. This new construction will continue throughout the next few quarters with expected transfer dates to Investment Properties in 2023. In addition to the above, we have one CRU located in our Woodbend Market Leduc, AB (Edmonton area) awaiting lease-up.

Continued development and leasing in these projects resulted in fair value gains of \$0.36 million during the quarter. Management examines each development site on a case by case basis and we continue to develop where we remain confident in our lessees prospects.

The Property Development division currently has 51,694 sf under active development or completed and awaiting lease-up.

### Regional Highlights

| (\$000s and at JV%, except as noted) | Three months ended |             |
|--------------------------------------|--------------------|-------------|
|                                      | 30-Sep-2022        | 30-Sep-2021 |
| Fair value adjustments by region     |                    |             |
| Northern Alberta                     | 139                | 930         |
| Southern Alberta                     | 217                | 1,342       |
|                                      | 356                | 2,272       |

| (\$000s and at JV%, except as noted) | Nine months ended |             |
|--------------------------------------|-------------------|-------------|
|                                      | 30-Sep-2022       | 30-Sep-2021 |
| Fair value adjustments by region     |                   |             |
| Northern Alberta                     | 549               | 1,041       |
| Southern Alberta                     | 217               | 92          |
|                                      | 766               | 1,133       |



**Northern Alberta:** We recognized \$0.14 million in fair value gains in the quarter and \$0.55 million year-to-date. Fair value gains in the quarter were driven by development done at Clearview Market 2 (Red Deer, AB) which has two stand along buildings currently under construction including a bank and a coffee shop. Year-to-date gains also including the final work which was done on a CRU in Jensen Lakes (St. Albert, AB) as well as final leasing and construction work being done at Woodbend (Leduc, AB) which was transferred to Investment Properties in the second quarter.

**Southern Alberta:** We recognized \$0.22 million in fair value gains in the to date in this region as we continue to build out our Chestermere Station (Chestermere, AB) development, which is

nearing completion. We have begun planning on a final CRU in this regional shopping center, which is planned to be under construction in the spring of 2023. We have a further 34,589 sf at Greenwich (Calgary, AB) under construction, which includes two buildings.

#### Future development opportunities

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

The following tables illustrate our current and future project expectations:

| Current Projects               |                |                                     |                       |  |   |
|--------------------------------|----------------|-------------------------------------|-----------------------|--|---|
| Project                        | Location       | Type                                | Total SF <sup>1</sup> | Developed and transferred to IP or Sold <sup>2</sup> | SF Under Development or developed and awaiting lease up |
| The Village at Blackmud Creek  | South Edmonton | Regional business park              | 550,000               | 198,905  | –   |
| Telford Industrial             | Leduc          | Industrial Park                     | 500,000               | 143,118  | –   |
| West Henday Promenade          | West Edmonton  | Regional mixed use centre           | 515,300               | 116,300  | –   |
| Kingsview Market               | Airdrie        | Regional shopping centre            | 331,000               | 200,601  | –   |
| Kingsview Commercial           | Airdrie        | Regional shopping centre            | 33,500                | 33,500   | –   |
| Chestermere Station            | Chestermere    | Neighbourhood shopping centre       | 278,100               | 241,600  | –   |
| Clearview Market 2             | Red Deer       | Neighbourhood shopping centre       | 80,000                | 20,794   | 6,322   |
| The District at North Deerfoot | North Calgary  | Regional business / industrial park | 1,285,000             | 586,633  | –   |
| Campsite Industrial            | Spruce Grove   | Industrial Park                     | 170,000               | 13,700   | –   |
| The Shoppes at Jagare Ridge    | South Edmonton | Neighbourhood shopping centre       | 105,000               | 105,000  | –   |
| Jensen Lakes Crossing          | St. Albert     | Neighbourhood shopping centre       | 150,000               | 108,373  | –   |
| Woodbend Market                | Leduc          | Neighbourhood shopping centre       | 140,000               | 3,130  | 10,783  |
| Vista Ridge                    | Sylvan Lake    | Neighbourhood shopping centre       | 20,000                | 5,158  | –   |
| Greenwich                      | West Calgary   | Regional mixed use centre           | 325,000               | 62,557   | 34,589  |

<sup>1</sup> Total SF represents the estimated total square footage remaining to be developed in the project. This includes sites that may be individually sold to retailers or end-users. For example, grocers usually buy land from Melcor and build/own their building. Total SF is periodically recalibrated based on current market conditions and changes to development plans.

<sup>2</sup> Developed and transferred to IP or sold includes estimated sf of sites sold to retailers for development as described above.



## Expected Future Projects

| Project                 | Location      | Type                           | Total SF <sup>1</sup> | Ownership Interest | Expected Start (year) |
|-------------------------|---------------|--------------------------------|-----------------------|--------------------|-----------------------|
| Secord                  | Edmonton      | Neighbourhood shopping centre  | 75,000                | 60 %               | 2023                  |
| Laredo                  | Red Deer      | Neighbourhood shopping centre  | 10,000                | 100 %              | 2024+                 |
| Keystone Common         | North Calgary | Regional power centre          | 350,000               | 100 %              | 2024+                 |
| The Shoppes at Canyons  | Lethbridge    | Neighbourhood shopping centre  | 105,000               | 100 %              | 2024+                 |
| Mattson                 | Edmonton      | Neighbourhood shopping centre  | 75,000                | 50 %               | 2024+                 |
| Rollyview               | Leduc         | Neighbourhood shopping centre  | 75,000                | 100 %              | 2024+                 |
| Rosenthal               | Edmonton      | Neighbourhood mixed use centre | 30,000                | 50 %               | 2024+                 |
| West Pointe Marketplace | Lethbridge    | Regional power centre          | 750,000               | 100 %              | 2024+                 |
| Westview Commercial     | West Calgary  | Neighbourhood shopping centre  | 150,000               | 100 %              | 2024+                 |
| Sora                    | South Calgary | Neighbourhood shopping centre  | 60,000                | 50 %               | 2024+                 |

<sup>1</sup> Total SF represents the estimated total square footage remaining to be developed in the project. This includes sites that may be individually sold to retailers or end-users. For example, grocers usually buy land from Melcor and build/own their building. Total SF is periodically recalibrated based on current market conditions and changes to development plans.

## Investment Properties

Our Investment Properties division manages and leases our portfolio of high-quality office, retail, industrial and residential properties, which are located across western Canada and the US, including properties owned by the REIT. Currently our Investment Properties division manages 4.79 million sf of income-producing commercial GLA and 585 residential units.

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

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

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

### Operating results

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

| <i>(as at, at JV%, except as noted)</i>                |                  |             |
|--|------------------|-------------|
|  | 30-Sep-2022      | 31-Dec-2021 |
| Commercial properties GLA under management (sf, total) | <b>4,787,112</b> | 4,753,285   |
| Properties owned and managed (sf)                      | <b>1,122,539</b> | 1,101,292   |
| Properties managed (sf)                                | <b>3,664,573</b> | 3,651,993   |
| Residential units managed                              | <b>585</b>       | 593         |
| Occupancy - CAD  | <b>89.5 %</b>    | 76.1 %      |
| Occupancy - US   | <b>81.1 %</b>    | 75.4 %      |
| Weighted Average Base Rent (per sf) - CAD              | <b>\$ 24.14</b>  | \$ 26.59    |
| Weighted Average Base Rent (per sf) - US               | <b>\$ 20.68</b>  | \$ 20.67    |

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

| (\$000s and at JV % except as noted)         | Three months ended September 30 |               | Nine months ended September 30 |               |
|--|---------------------------------|---------------|--------------------------------|---------------|
|  | 2022                            | 2021          | 2022                           | 2021          |
|  | Revenue (total)                 | <b>11,593</b> | 9,272                          | <b>32,156</b> |
| Canadian properties                          | <b>6,338</b>                    | 4,375         | <b>16,403</b>                  | 12,762        |
| US properties                                | <b>3,765</b>                    | 3,494         | <b>11,217</b>                  | 12,066        |
| Management fees                              | <b>1,271</b>                    | 1,277         | <b>3,994</b>                   | 4,257         |
| Parking lots and other assets                | <b>219</b>                      | 126           | <b>542</b>                     | 345           |
| Net operating income (NOI) <sup>1</sup>      | <b>6,289</b>                    | 5,539         | <b>18,609</b>                  | 17,928        |
| Funds from operations <sup>1</sup>           | <b>7,139</b>                    | 5,324         | <b>18,420</b>                  | 17,060        |
| Funds from operations per share <sup>2</sup> | <b>0.22</b>                     | 0.16          | <b>0.57</b>                    | 0.52          |

1 Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.

2 Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.

The Investment Properties division's primary function is asset management and hands on property management.

### Canadian properties

Our Canadian property portfolio continues to grow as properties are developed and transferred from Property Developments. The Property Development division has 51,694 sf of GLA under active construction or completed and awaiting lease up. The majority of transfers to Investment Properties typically occur in the latter part of the year due to construction timing and weather in our primary operating regions.

Occupancy at our Canadian properties was up over year-end at 89.5% (2021: 76.1%) while WABR was down 9% at \$24.14 (2021: \$26.59). Occupancy and WABR are impacted by transfers from the Property Development division as new leases have both fixturing and rent free periods impacting both occupancy and WABR. A single tenant occupying 55,201 sf opened in the quarter and received free-rent, which impacted WABR. Excluding this tenant, WABR was \$26.85.

Leasing activities on our newer Property Development assets contributed to both the increase in WABR and occupancy to date in 2022. Certified measures on tenant spaces can also cause slight variances on occupancy as these are adjusted as tenants occupy space.

The following is a reconciliation of Canadian properties same asset NOI to NOI:

| (\$000s and at JV%, except as noted) | Three months ended September 30 |       | Nine months ended September 30 |       |
|--------------------------------------|---------------------------------|-------|--------------------------------|-------|
|                                      | 2022                            | 2021  | 2022                           | 2021  |
| Same asset NOI <sup>1</sup>          | <b>2,510</b>                    | 2,488 | <b>7,723</b>                   | 7,174 |
| Properties transferred from PD       | <b>868</b>                      | 436   | <b>2,315</b>                   | 751   |
| NOI <sup>1</sup>                     | <b>3,378</b>                    | 2,924 | <b>10,038</b>                  | 7,925 |
| Amortization of tenant incentives    | <b>(177)</b>                    | (165) | <b>(511)</b>                   | (480) |
| Straight-line rent adjustment        | <b>1,300</b>                    | 284   | <b>1,784</b>                   | 1,151 |
| Gross profit                         | <b>4,501</b>                    | 3,043 | <b>11,311</b>                  | 8,596 |

1 Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.

Gross profit was up 48% or \$1.46 million in the quarter and 32% or \$2.72 million year-to-date. NOI increased by 16% or \$0.45 million in the quarter and 27% or \$2.11 million year-to-date.

Properties transferred from Property Development over the last 12 months, as well as those currently under development, added \$0.87 million in NOI in Q3-2022 and \$2.32 million year-to-date (Q3-2021: \$0.44 million; YTD-2021: \$0.75 million).

On a same asset basis, NOI was up 1% in the quarter and 8% year-to-date due to improved occupancy.

### US properties

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

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

**Dispositions:** We sold 11 Brownstone units in Q3-2021, and 8 units in our Dakotas, Edge and Shores locations year-to-date. These dispositions are adjusted for in the same asset NOI calculations following.

Revenue on US properties was \$3.77 million in Q3-2022 (Q3-2021: \$3.49 million) and \$11.22 million year-to-date (YTD-2021: \$12.07 million). Excluding the IP Early Termination event, year-to-date revenue was up 11%. Revenue and NOI were also impacted by dispositions in the trailing 12 months, which is adjusted for in the same asset NOI calculations in the following table.

Occupancy was up at 81.1% (2021: 75.4%) and WABR remained stable over year-end at \$20.68.

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

| (\$000s and at JV%, except as noted) | Three months ended September 30 |       | Nine months ended September 30 |       |
|--------------------------------------|---------------------------------|-------|--------------------------------|-------|
|                                      | 2022                            | 2021  | 2022                           | 2021  |
| Same asset NOI <sup>1</sup>          | 1,288                           | 1,233 | 3,911                          | 5,443 |
| Third party disposals                | —                               | 18    | —                              | 83    |
| NOI <sup>1</sup>                     | 1,288                           | 1,251 | 3,911                          | 5,526 |
| Foreign currency translation         | 392                             | 325   | 1,105                          | 1,386 |
| Amortization of tenant incentives    | (238)                           | (241) | (662)                          | (734) |
| Straight-line rent adjustment        | 47                              | (29)  | 214                            | (388) |
| Gross profit                         | 1,489                           | 1,306 | 4,568                          | 5,790 |

1 Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.

Gross profit was up \$0.18 million in Q3-2022 and down \$1.22 million year-to-date. Excluding the IP Early Termination event, gross profit was up \$0.72 million year-to-date. Fluctuations in straight-line rent was the largest contributor to swings in gross profit and revenue in both the quarter and year-to-date.

#### Management fees & other

We earn management fees under the asset management and property management agreements with the REIT and under other joint venture agreements where Melcor acts as the manager.

Q3-2022 management fees were stable compared to Q3-2021, and down \$0.26 million or 6% year-to-date. Management fees within our investment properties division includes payments received from REIT for management of the assets held within that division. The leasing fee agreement between Melcor and Melcor REIT was amended in Q3-2022, resulting in adjustments to-year to-date charges. These amounts are eliminated on consolidation.

#### Funds from Operations

FFO increased 34% or \$1.82 million in the quarter 8% or \$1.36 million year-to-date. The IP Early Termination fee continues to skew year-to-date results in the comparative period as it directly increased other revenue and NOI. Excluding this event, year-to-date FFO was up 22% or \$3.30 million due to increased occupancy.

#### REIT

The REIT owns 39 income-producing office, retail and industrial properties, comprising 3.22 million square feet of GLA at September 30, 2022. The REIT's portfolio has a diversified tenant profile - with a mix of national, regional and local tenants - operating in a variety of industries.

As at November 8, 2022 we have a controlling 55.4% interest in the REIT through ownership of all Class B LP Units (December 31, 2021 - 55.4%). As we have concluded that Melcor retains control of the REIT, we consolidate 100% of the REIT's revenues, expenses, assets and liabilities.

**Early Termination event:** In Q1-2021, we received \$1.00 million for the early lease termination of a fast food chain which was included in other revenue, and impacts year-to-date comparative results.

#### Operating results

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

| (as at, at JV%, except as noted)         | 30-Sep-2022  | 31-Dec-2021 |
|--|--|-------------|
|  | Commercial properties GLA under management (sf, total) | 3,216,141   |
| Fair value of portfolio <sup>1</sup>     | 726,912  | 723,729     |
| Occupancy                                | 88.2 %   | 87.1 %      |
| Weighted average base rent (per sq. ft.) | 16.49  | 16.73       |

1 Supplementary financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.

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

| (\$000s except as noted)                                | Three months ended September 30 |        | Nine months ended September 30 |        |
|---|---------------------------------|--------|--------------------------------|--------|
|   | 2022                            | 2021   | 2022                           | 2021   |
| Rental revenue  | 18,189                          | 18,089 | 55,308                         | 55,552 |
| NOI <sup>1</sup>  | 11,613                          | 11,915 | 34,859                         | 36,124 |
| Same asset NOI <sup>1</sup> (see calculation following) | 11,613                          | 11,915 | 34,859                         | 36,124 |
| Fair value adjustment on investment properties          | 6,337                           | 2,535  | (2,865)                        | 2,665  |
| Funds from operations <sup>1</sup>                      | 11,062                          | 11,247 | 32,866                         | 33,993 |
| Funds from operations per share <sup>2</sup>            | 0.34                            | 0.34   | 1.00                           | 1.02   |

1 Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.

2 Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.

Rental revenue was consistent in the quarter and year-to-date. Excluding the Early Termination event, revenue was up 1% year-to-date. Swings in SLR partially offset the higher other revenue in the comparative period.

Other revenue includes parking, storage, lease amendment fees and other miscellaneous revenue that is ancillary to our business and fluctuates from period to period. Year-to-date other revenue was significantly impacted by the \$1.00 million fee for the Early Termination event received in Q1-2021.

To date, we have signed 446,993 sf of new and renewed leasing (including holdovers). In 2022, 427,670 sf of our portfolio is up for renewal, including month-to-month tenants.

As at September 30, 2022, we have retained 89% (319,079 sf) of expiring leases and have received commitment on an additional 85,024 sf of future renewals. Pockets of opportunity exist across our portfolio and in all asset classes.

Property taxes and utilities were up 1% in the quarter and year-to-date. Utility costs, including heating costs, fluctuate year over year depending on weather conditions in the regions where our assets are located. Property tax increases were the result of increased mill rates over the prior year.

Operating expenses were up in both the quarter and year-to-date consistent with the timing of maintenance projects and inflationary pressures being felt across the industry.

The following is a reconciliation of same asset NOI to net rental income:

| (\$000s except as noted)          | Three months ended<br>September 30 |         | Nine months ended<br>September 30 |         |
|-----------------------------------|------------------------------------|---------|-----------------------------------|---------|
|                                   | 2022                               | 2021    | 2022                              | 2021    |
| Same asset NOI <sup>1</sup>       | 11,613                             | 11,915  | 34,859                            | 36,124  |
| NOI before adjustments            | 11,613                             | 11,915  | 34,859                            | 36,124  |
| Amortization of tenant incentives | (956)                              | (1,116) | (2,763)                           | (2,967) |
| Straight-line rent adjustment     | 225                                | 42      | 366                               | 64      |
| Net rental income                 | 10,882                             | 10,841  | 32,462                            | 33,221  |

1 Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.

NOI and same-asset NOI are non-standard metrics used in the real estate industry to measure the performance of investment properties. The IFRS measure most directly comparable to NOI and same-asset NOI is net income. Refer to the Non-GAAP and Non-Standard Measures section for reconciliation of NOI to net income.

NOI and same-asset NOI are the same for both the three and nine months ended September 30, 2022 as no transactions were completed within the trailing 24 months. NOI was down 3% in the quarter and down 4% year-to-date due to the Early Termination event which inflated revenue and NOI in the comparative year-to-date results. Excluding the Early Termination event, year-to-date NOI up slightly over 2021.

### Funds from operations

FFO is a non-GAAP financial measure used in the real estate industry to measure the operating performance of investment properties. Refer to the Non-GAAP and Non-Standard Measures section for further information. FFO was down 2% in the quarter due to lower NOI. Year-to-date FFO was down 3%. Excluding the Early Termination event, year-to-date FFO was stable.

### Recreational Properties

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

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

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

Revenue in the Recreational Properties division increased by 4% to \$4.86 million in the quarter and 4% to \$9.62 million year-to-date. A long winter pushed golf course opening dates to the end of April, comparative to early April opening dates in 2021. This resulted in a decreased number of rounds played to date. This is

offset by efforts to focus on the clubhouses and food and beverage services, which is up 21% year-to-date over 2021.

|                                  | Ownership interest | Season opened 2022 | Rounds of Golf |
|----------------------------------|--------------------|--------------------|----------------|
| <i>Managed by Melcor:</i>        |                    |                    |                |
| Lewis Estates (Edmonton)         | 60%                | April 22           | 28,540         |
| The Links (Spruce Grove)         | 100%               | April 22           | 27,213         |
| Black Mountain (Kelowna)         | 100%               | March 30           | 35,030         |
| <i>Managed by a Third Party:</i> |                    |                    |                |
| Jagare Ridge (Edmonton)          | 50%                | April 29           | 23,549         |

|                                  | Ownership interest | Season opened 2021 | Rounds of Golf |
|----------------------------------|--------------------|--------------------|----------------|
| <i>Managed by Melcor:</i>        |                    |                    |                |
| Lewis Estates (Edmonton)         | 60%                | April 2            | 32,319         |
| The Links (Spruce Grove)         | 100%               | April 2            | 30,893         |
| Black Mountain (Kelowna)         | 100%               | April 1            | 36,646         |
| <i>Managed by a Third Party:</i> |                    |                    |                |
| Jagare Ridge (Edmonton)          | 50%                | April 14           | 27,498         |

### General & Administrative Expense

G&A expenses were up 22% in the quarter and 17% year-to-date. Community Development G&A was up due to increased activity in the division and the reversal of various cost constraint initiatives put in place in the comparative period. Our Investment Properties G&A was up due to one-time expenses and increased professional fees which include our 3rd party property appraisals, legal and accounting fees.

As a percentage of revenue, G&A was up slightly in the quarter at 10% (Q3-2021: 9%) and 11% year-to-date (YTD-2021: 9%). Management continues to prudently monitor and manage controllable expenses.

### Income Tax Expense

The statutory tax rate is 23% for the three and nine months ended September 30, 2022 (2021: 23%). Items that impacted the effective tax rate include permanent differences related to revaluation adjustments on investment properties, distributions to REIT unitholders and the non-taxable portion of REIT income.

## Liquidity & Capital Resources

The following table represents selected information as at September 30, 2022, compared with December 31, 2021.

| As at (\$000s except as noted)           | 30-Sep-2022 | 31-Dec-2021 |
|--|-------------|-------------|
| Cash & cash equivalents                  | 82,453      | 59,920      |
| Restricted cash                          | 6,723       | 4,824       |
| Accounts receivable                      | 9,076       | 10,097      |
| Agreements receivable                    | 100,067     | 127,739     |
| Revolving credit facilities              | 142,761     | 87,050      |
| Accounts payable and accrued liabilities | 52,041      | 50,476      |
| Total assets                             | 2,178,869   | 2,113,927   |
| Total liabilities                        | 1,019,012   | 997,458     |
| Debt to equity ratio <sup>1</sup>        | 0.88        | 0.89        |

<sup>1</sup> Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.

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

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

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

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

### Financing & Liquidity

Total liquidity (cash and MDL & REIT line availability) was \$159.70 million as at September 30, 2022 (December 31, 2021: \$126.66 million). Our total general debt outstanding was \$765.98 million as at September 30, 2022 (December 31, 2021: \$716.91 million).

A summary of our debt is as follows:

| As at (\$000s)                                       | 30-Sep-2022 | 31-Dec-2021 |
|--|-------------|-------------|
| Melcor - revolving credit facilities                 | 137,752     | 87,050      |
| REIT - revolving credit facility                     | 5,009       | –           |
| Project specific financing                           | 17,213      | 40,758      |
| Secured vendor take back debt on land inventory      | 5,717       | 11,794      |
| Debt on investment properties and golf course assets | 532,201     | 506,382     |
| REIT - convertible debentures                        | 68,087      | 70,929      |
| General debt   | 765,979     | 716,913     |

We are subject to financial covenants on our revolving credit facility. The covenants include a maximum debt to total capital ratio of 125%, a minimum debt service coverage ratio of 3.00, and a minimum net book value of shareholder's equity of \$300.00 million. As at September 30, 2022 and throughout the period, we were in compliance with our financial covenants.

We are also subject to financial covenants on the REIT's \$35.00 million revolving credit facility. The covenants include a maximum debt to total capital ratio of 60% (excluding convertible debenture), a minimum debt service coverage ratio of 1.25, and a minimum adjusted unitholders' equity of \$140 million. As at September 30, 2022 and throughout the period, we were in compliance with our financial covenants.

These metrics are non-standard measures used to assess compliance with our lending agreements and are not specifically defined in the CPA Handbook or in IFRS. These non-standard measures may not be comparable to similar measures presented by other companies.

### Sources & Uses of Cash

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

| (\$000s)                                      | Three months ended |             |
|---|--------------------|-------------|
|   | 30-Sep-2022        | 30-Sep-2021 |
| Cash flow from operating activities           | 8,634              | 10,789      |
| Cash flow used in investing activities        | (5,629)            | (18)        |
| Cash flow from (used in) financing activities | 6,548              | (2,854)     |

| (\$000s)                                      | Nine months ended |             |
|---|-------------------|-------------|
|   | 30-Sep-2022       | 30-Sep-2021 |
| Cash flow from operating activities           | 7,477             | 46,489      |
| Cash flow used in investing activities        | (7,885)           | (14,811)    |
| Cash flow from (used in) financing activities | 21,669            | (7,297)     |

Cash flow from operating activities was \$8.63 million in Q3-2022 and \$7.48 million year-to-date (Q3-2021: \$10.79 million, YTD-2021: \$46.49 million). Cash flow from operating activities is significantly impacted by the timing of development and sales activity and settlement of working capital. Collections on agreements receivable were up \$16.48 million compared to 2021 due to timing of sales and receipts.



Development activities contributed to an increase in spending in the quarter at \$26.86 million and \$31.40 million year-to-date (Q3-2021 \$16.15 million, YTD-2021: \$17.39 million).

Operating assets and liabilities tend to fluctuate year over year depending on the timing of payments due and receivable, which resulted in cash inflow of \$9.06 million in Q3-2022 (Q3-2021: \$14.46 million). Year-to-date, operating assets saw cash outflow of \$9.16 million compared with cash inflow of \$26.17 million in 2021.

Tenant incentives and direct leasing costs were up in the quarter at \$5.34 million and \$9.94 million year-to-date (Q3-2021: \$1.86 million, YTD-2021: \$5.99 million). Our restricted cash balance also went up \$0.40 million related to deposits on US lot sales.

Cash flow used in investing activities was \$5.63 million in Q3-2022 and \$7.89 million used in year-to-date (Q3-2021: \$0.02 million, YTD-2021: \$14.81 million). We continue to develop commercial properties and invest in our portfolio, resulting in \$6.74 million of cash outflow in the quarter (Q3-2021: \$6.86 million). To date, Investments in properties under development in our Property Development division contributed \$8.68 million to cash outflows (YTD-2021: \$17.35 million).

Cash flow from financing activities was \$6.55 million in Q3-2022 and \$21.67 million year-to-date, compared to \$2.85 million used in Q3-2021, and \$7.30 million used in YTD-2021. Draws on the credit facility were \$27.99 million in Q3-2022 and \$55.71 million year-to-date (Q3-2021: \$12.34 million, YTD-2021: \$27.14 million). Draws on the credit facility were offset by net repayment on our general debt of \$8.11 million year-to-date in 2022 compared with net repayment of \$21.66 million YTD-2021.

We paid dividends of \$0.15 per share in Q3-2022 for a total of \$4.81 million compared to \$0.12 per share in Q3-2021 for a total of \$3.96 million. Year-to-date we have paid a total of \$13.98 million in dividends compared to \$10.58 million in 2021.

## Share Data

Melcor has been a public company since 1968 and trades under the symbol "MRD" on the Toronto Stock Exchange. As at September 30, 2022 there were 32,061,202 common shares issued and outstanding, 369,500 options, and 260,591 restricted share units. Each stock option and restricted share unit is convertible to one common share upon exercise or exchange. There is only one class of common shares issued.

## Off Balance Sheet Arrangements, Contractual Obligations, Business Environment & Risks, Critical Accounting Estimates, Changes in Accounting Policies

There are no material changes to the above titled sections at September 30, 2022 in comparison to the December 31, 2021 annual MD&A. Refer to note 3 of the condensed interim consolidated financial statements for changes in accounting policies.

## Normal Course Issuer Bid

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

### Melcor Developments Ltd:

On April 1, 2022 Melcor commenced a new NCIB, which allows Melcor to purchase up to 1,641,627 shares for cancellation, representing approximately 5% of the issued and outstanding shares. The shares may be repurchased up to a maximum daily limit of 1,281. The price Melcor will pay for shares repurchased under the plan will be the market price at the time of acquisition. The NCIB ends one year from commencement on March 31, 2023. To date, we have purchased 772,312 common shares for cancellation under this plan.

Melcor has entered into an automatic share purchase plan (ASPP) agreement with a broker to allow shares to be purchased under the NCIB at times we would ordinarily not be active in the market due to regulatory restrictions or self-imposed blackout periods.

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

### Melcor REIT:

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

The REIT did not renew its NCIB.

## Quarterly Results

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

| (\$000s)                   | Three Months Ended |            |            |            |            |            |            |            |
|----------------------------|--------------------|------------|------------|------------|------------|------------|------------|------------|
|                            | 30-Sept-22         | 30-Jun-22  | 31-Mar-22  | 31-Dec-21  | 30-Sept-21 | 30-June-21 | 31-Mar-21  | 31-Dec-20  |
| Revenue                    | <b>61,136</b>      | 51,044     | 53,306     | 150,598    | 56,213     | 65,547     | 43,270     | 80,947     |
| Net income (loss)          | <b>23,774</b>      | 25,908     | 2,470      | 44,769     | 16,561     | 9,014      | (14,033)   | (112)      |
| FFO <sup>1</sup>           | <b>16,012</b>      | 11,853     | 10,697     | 42,311     | 12,516     | 16,326     | 10,174     | 21,908     |
| Shares outstanding (basic) | <b>32,061,202</b>  | 32,623,921 | 32,832,559 | 32,961,015 | 32,966,423 | 33,066,649 | 33,086,061 | 33,091,061 |
| <i>Per Share</i>           |                    |            |            |            |            |            |            |            |
| Basic earnings (loss)      | <b>0.73</b>        | 0.79       | 0.08       | 1.35       | 0.50       | 0.27       | (0.42)     | (0.01)     |
| Diluted earnings (loss)    | <b>0.73</b>        | 0.79       | 0.07       | 1.35       | 0.50       | 0.27       | (0.42)     | (0.01)     |
| FFO basic <sup>2</sup>     | <b>0.49</b>        | 0.36       | 0.33       | 1.28       | 0.38       | 0.49       | 0.31       | 0.66       |
| FFO diluted <sup>2</sup>   | <b>0.49</b>        | 0.36       | 0.32       | 1.28       | 0.37       | 0.49       | 0.30       | 0.66       |
| Dividends                  | <b>0.15</b>        | 0.14       | 0.14       | 0.12       | 0.12       | 0.10       | 0.10       | 0.08       |
| Book value <sup>2</sup>    | <b>35.55</b>       | 34.78      | 33.81      | 33.87      | 32.69      | 32.10      | 31.98      | 32.56      |

1 Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.

2 Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.

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

## Subsequent Events

Refer to note 13 of the interim consolidated financial statements for information pertaining to subsequent events.

## Internal Control over Financial Reporting & Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were material changes to internal control over financial reporting during the quarter ended September 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Melcor has continually responded to the COVID-19 pandemic by following the guidelines set forth by the Alberta government, at a minimum. As a result, the majority of Melcor's employee base was working from home wherever practical until mid-March 2022. The remote work arrangements have not impacted the design of our internal controls. We will continue to monitor and mitigate the risks associated with changes to our control environment.

## Non-GAAP and Non-standard Measures

Throughout this MD&A, we refer to terms known as non-GAAP financial performance measures that are not specifically defined in the CPA Canada Handbook or in IFRS. These non-standard measures may not be comparable to similar measures presented by other companies. We use REALpac definitions for items such

as FFO except that, for FFO, we include an adjustment for amortization of deferred financing fees, which is included in non-cash financing costs.

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

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

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

### Investment Properties

| (\$000s)                                       | Three months ended<br>September 30 |       | Nine months ended<br>September 30 |         |
|--|------------------------------------|-------|-----------------------------------|---------|
|  | 2022                               | 2021  | 2022                              | 2021    |
| <b>Segment Earnings</b>                        | <b>2,461</b>                       | 4,523 | <b>16,698</b>                     | 19,322  |
| Fair value adjustment on investment properties | <b>4,263</b>                       | 395   | <b>549</b>                        | (3,476) |
| General and administrative expenses            | <b>505</b>                         | 470   | <b>2,201</b>                      | 1,632   |
| Interest income                                | <b>(8)</b>                         | –     | <b>(14)</b>                       | (1)     |
| Amortization of tenant incentives              | <b>415</b>                         | 406   | <b>1,173</b>                      | 1,214   |
| Straight-line rent adjustment                  | <b>(1,347)</b>                     | (255) | <b>(1,998)</b>                    | (763)   |
| <b>Divisional NOI</b>                          | <b>6,289</b>                       | 5,539 | <b>18,609</b>                     | 17,928  |



## REIT

| (\$000s)                                       | Three months ended<br>September 30 |         | Nine months ended<br>September 30 |         |
|--|------------------------------------|---------|-----------------------------------|---------|
|  | 2022                               | 2021    | 2022                              | 2021    |
| <b>Segment Earnings</b>                        | <b>16,443</b>                      | 12,666  | <b>27,238</b>                     | 33,691  |
| Fair value adjustment on investment properties | <b>(6,337)</b>                     | (2,535) | <b>2,865</b>                      | (2,665) |
| General and administrative expenses            | <b>783</b>                         | 717     | <b>2,381</b>                      | 2,215   |
| Interest income                                | <b>(7)</b>                         | (7)     | <b>(22)</b>                       | (20)    |
| Amortization of tenant incentives              | <b>956</b>                         | 1,116   | <b>2,763</b>                      | 2,967   |
| Straight-line rent adjustment                  | <b>(225)</b>                       | (42)    | <b>(366)</b>                      | (64)    |
| <b>Divisional NOI</b>                          | <b>11,613</b>                      | 11,915  | <b>34,859</b>                     | 36,124  |

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

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

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

**Gross margin (%):** Gross margin percent is a supplementary financial measure that indicates the relative efficiency with which we earn revenue. This ratio is calculated by dividing gross profit by revenue.

**Net margin (%):** Net margin percent is a supplementary financial measure that indicates the relative efficiency with which we earn income. This ratio is calculated by dividing net income by revenue.

**Book value per share:** Book value per share is a non-GAAP financial ratio and is calculated as shareholders' equity over number of common shares outstanding.

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

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

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

**Funds from operations (FFO):** FFO is a non\*GAAP financial measure and is defined as net income in accordance with IFRS, excluding (i) fair value adjustments on investment properties; (ii) gains (or losses) from sales of investment properties; (iii) amortization of tenant incentives; (iv) fair value adjustments, interest expense and other effects of redeemable

units classified as liabilities; (v) acquisition costs expensed as a result of the purchase of a property being accounted for as a business combination; (vi) adjustment for amortization of deferred financing fees, which is included in non-cash financing costs and (vii) fair value adjustment on derivative instrument, after adjustments for equity accounted entities, joint ventures and non-controlling interests calculated to reflect FFO on the same basis as consolidated properties. Further discussion over FFO, including a reconciliation from net income, can be found in the Funds from Operations section of the MD&A and in the tables below:

## Consolidated

| (\$000s)                                       | Three months ended<br>September 30 |         | Nine months ended<br>September 30 |          |
|--|------------------------------------|---------|-----------------------------------|----------|
|  | 2022                               | 2021    | 2022                              | 2021     |
| <b>Net income for the period</b>               | <b>23,774</b>                      | 16,561  | <b>52,152</b>                     | 11,542   |
| Amortization of tenant incentives              | <b>2,738</b>                       | 2,102   | <b>5,620</b>                      | 5,922    |
| Fair value adjustment on investment properties | <b>(3,070)</b>                     | (5,183) | <b>247</b>                        | (10,040) |
| Depreciation on property and equipment         | <b>533</b>                         | 509     | <b>1,141</b>                      | 1,107    |
| Stock based compensation expense               | <b>514</b>                         | 254     | <b>847</b>                        | 762      |
| Non-cash finance costs                         | <b>(2,619)</b>                     | (135)   | <b>(7,911)</b>                    | 4,147    |
| Gain on sale of asset                          | <b>(29)</b>                        | (65)    | <b>(37)</b>                       | (127)    |
| Deferred income taxes                          | <b>(126)</b>                       | (879)   | <b>11</b>                         | (604)    |
| Fair value adjustment on REIT units            | <b>(5,703)</b>                     | (648)   | <b>(13,508)</b>                   | 26,307   |
| <b>FFO</b>                                     | <b>16,012</b>                      | 12,516  | <b>38,562</b>                     | 39,016   |

## Investment Properties

| (\$000s)                                       | Three months ended<br>September 30 |       | Nine months ended<br>September 30 |         |
|--|------------------------------------|-------|-----------------------------------|---------|
|  | 2022                               | 2021  | 2022                              | 2021    |
| <b>Segment Earnings</b>                        | <b>2,461</b>                       | 4,523 | <b>16,698</b>                     | 19,322  |
| Fair value adjustment on investment properties | <b>4,263</b>                       | 395   | <b>549</b>                        | (3,476) |
| Amortization of tenant incentives              | <b>415</b>                         | 406   | <b>1,173</b>                      | 1,214   |
| <b>Divisional FFO</b>                          | <b>7,139</b>                       | 5,324 | <b>18,420</b>                     | 17,060  |

## REIT

| (\$000s)   | Three months ended<br>September 30 |         | Nine months ended<br>September 30 |         |
|--|------------------------------------|---------|-----------------------------------|---------|
|  | 2022                               | 2021    | 2022                              | 2021    |
| <b>Segment Earnings</b>                              | <b>16,443</b>                      | 12,666  | <b>27,238</b>                     | 33,691  |
| Fair value adjustment<br>on investment<br>properties | <b>(6,337)</b>                     | (2,535) | <b>2,865</b>                      | (2,665) |
| Amortization of tenant<br>incentives                 | <b>956</b>                         | 1,116   | <b>2,763</b>                      | 2,967   |
| <b>Divisional FFO</b>                                | <b>11,062</b>                      | 11,247  | <b>32,866</b>                     | 33,993  |

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



Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2022

(Unaudited, in thousands of Canadian dollars)

## Condensed Interim Consolidated Statement of Income

| Unaudited (\$000s)   | For the three months ended |                    | For the nine months ended |                    |
|--|----------------------------|--------------------|---------------------------|--------------------|
|  | September 30, 2022         | September 30, 2021 | September 30, 2022        | September 30, 2021 |
| Revenue (note 7)   | 61,136                     | 56,213             | 165,486                   | 165,030            |
| Cost of sales  | (30,981)                   | (29,313)           | (84,290)                  | (85,539)           |
| Gross profit   | 30,155                     | 26,900             | 81,196                    | 79,491             |
| General and administrative expense                             | (6,329)                    | (5,206)            | (17,650)                  | (15,062)           |
| Fair value adjustment on investment properties (note 5 and 11) | 3,070                      | 5,183              | (247)                     | 10,040             |
| Adjustments related to REIT units (note 10 and 11)             | 3,630                      | (843)              | 8,323                     | (30,529)           |
| Gain on sale of assets   | 29                         | 65                 | 37                        | 127                |
| Operating earnings   | 30,555                     | 26,099             | 71,659                    | 44,067             |
| Interest income  | 707                        | 154                | 1,090                     | 447                |
| Finance costs  | (3,572)                    | (5,966)            | (10,484)                  | (22,607)           |
| Net finance costs  | (2,865)                    | (5,812)            | (9,394)                   | (22,160)           |
| Income before income taxes                                     | 27,690                     | 20,287             | 62,265                    | 21,907             |
| Income tax expense   | (3,916)                    | (3,726)            | (10,113)                  | (10,365)           |
| Net income for the period                                      | 23,774                     | 16,561             | 52,152                    | 11,542             |
| Income per share:  |                            |                    |                           |                    |
| Basic income per share   | 0.73                       | 0.50               | 1.59                      | 0.35               |
| Diluted income per share                                       | 0.73                       | 0.50               | 1.59                      | 0.35               |

See accompanying notes to these condensed interim consolidated financial statements.

## Condensed Interim Consolidated Statement of Comprehensive Income

| Unaudited (\$000s)   | For the three months ended |                    | For the nine months ended |                    |
|--|----------------------------|--------------------|---------------------------|--------------------|
|  | September 30, 2022         | September 30, 2021 | September 30, 2022        | September 30, 2021 |
| Net income for the period                                  | 23,774                     | 16,561             | 52,152                    | 11,542             |
| Other comprehensive income                                 |                            |                    |                           |                    |
| Items that may be reclassified subsequently to net income: |                            |                    |                           |                    |
| Currency translation differences                           | 12,648                     | 4,804              | 16,294                    | 229                |
| Comprehensive income                                       | 36,422                     | 21,365             | 68,446                    | 11,771             |

See accompanying notes to these condensed interim consolidated financial statements.

## Condensed Interim Consolidated Statement of Financial Position

| Unaudited (\$000s)                            | September 30, 2022 | December 31, 2021 |
|---|--------------------|-------------------|
| <b>ASSETS</b>                                 |                    |                   |
| Cash and cash equivalents                     | 82,453             | 59,920            |
| Restricted cash                               | 6,723              | 4,824             |
| Accounts receivable                           | 9,076              | 10,097            |
| Income taxes recoverable                      | 7,804              | 323               |
| Agreements receivable                         | 100,067            | 127,739           |
| Land inventory (note 4)                       | 757,678            | 725,806           |
| Investment properties (note 5 and 11)         | 1,135,443          | 1,118,805         |
| Property and equipment                        | 12,375             | 12,887            |
| Other assets                                  | 60,962             | 53,526            |
| Derivative financial assets (note 11)         | 6,288              | —                 |
|   | <b>2,178,869</b>   | <b>2,113,927</b>  |
| <b>LIABILITIES</b>                            |                    |                   |
| Accounts payable and accrued liabilities      | 52,041             | 50,476            |
| Income taxes payable                          | 3,402              | 5,936             |
| Provision for land development costs          | 66,399             | 79,517            |
| General debt (note 6)                         | 765,979            | 716,913           |
| Deferred income tax liabilities               | 56,449             | 56,341            |
| REIT units (note 10 and 11)                   | 74,742             | 88,275            |
|   | <b>1,019,012</b>   | <b>997,458</b>    |
| <b>SHAREHOLDERS' EQUITY</b>                   |                    |                   |
| Share capital (note 8)                        | 71,487             | 73,304            |
| Contributed surplus                           | 5,443              | 4,727             |
| Accumulated other comprehensive income (AOCI) | 34,152             | 17,858            |
| Retained earnings                             | 1,048,775          | 1,020,580         |
|   | <b>1,159,857</b>   | <b>1,116,469</b>  |
|   | <b>2,178,869</b>   | <b>2,113,927</b>  |

See accompanying notes to these condensed interim consolidated financial statements.

## Condensed Interim Consolidated Statement of Changes in Equity

| Unaudited (\$000's)                     | Equity attributable to Melcor's shareholders |                     |               |                   | Total equity     |
|---|--|---------------------|---------------|-------------------|------------------|
|   | Share capital                                | Contributed surplus | AOCI          | Retained earnings |                  |
| <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 period               | —  | —                   | —             | 52,152            | 52,152           |
| Cumulative translation adjustment       | —  | —                   | 16,294        | —                 | 16,294           |
| <b>Transactions with equity holders</b> |  |                     |               |                   |                  |
| Dividends                               | —  | —                   | —             | (13,977)          | (13,977)         |
| Share repurchase (note 8)               | (3,352)                                      | —                   | —             | (9,980)           | (13,332)         |
| Employee share options                  |  |                     |               |                   |                  |
| Value of services recognized            | —  | 847                 | —             | —                 | 847              |
| Share issuance                          | 1,535  | (131)               | —             | —                 | 1,404            |
| <b>Balance at September 30, 2022</b>    | <b>71,487</b>                                | <b>5,443</b>        | <b>34,152</b> | <b>1,048,775</b>  | <b>1,159,857</b> |

| Unaudited (\$000's)                     | Equity attributable to Melcor's shareholders |                     |               |                   | Total equity     |
|---|--|---------------------|---------------|-------------------|------------------|
|   | Share capital                                | Contributed surplus | AOCI          | Retained earnings |                  |
| <b>Balance at January 1, 2021</b>       | <b>72,270</b>                                | <b>4,948</b>        | <b>18,603</b> | <b>981,608</b>    | <b>1,077,429</b> |
| Net income for the period               | —  | —                   | —             | 11,542            | 11,542           |
| Cumulative translation adjustment       | —  | —                   | 229           | —                 | 229              |
| <b>Transactions with equity holders</b> |  |                     |               |                   |                  |
| Dividends                               | —  | —                   | —             | (10,576)          | (10,576)         |
| Share repurchase                        | (289)  | —                   | —             | (1,390)           | (1,679)          |
| Employee share options                  |  |                     |               |                   |                  |
| Value of services recognized            | —  | 762                 | —             | —                 | 762              |
| Share issuance                          | 146  | (137)               | —             | —                 | 9                |
| <b>Balance at September 30, 2021</b>    | <b>72,127</b>                                | <b>5,573</b>        | <b>18,832</b> | <b>981,184</b>    | <b>1,077,716</b> |

See accompanying notes to these condensed interim consolidated financial statements.

## Condensed Interim Consolidated Statement of Cash Flows

| Unaudited (\$'000's)  | For the three months ended |                    | For the nine months ended |                    |
|---|----------------------------|--------------------|---------------------------|--------------------|
|   | September 30, 2022         | September 30, 2021 | September 30, 2022        | September 30, 2021 |
| <b>CASH FLOWS FROM (USED IN)</b>                                |                            |                    |                           |                    |
| <b>OPERATING ACTIVITIES</b>                                     |                            |                    |                           |                    |
| Net income for the period                                       | 23,774                     | 16,561             | 52,152                    | 11,542             |
| Non cash items:   |                            |                    |                           |                    |
| Amortization of tenant incentives                               | 2,738                      | 2,102              | 5,620                     | 5,922              |
| Depreciation of property and equipment                          | 533                        | 509                | 1,141                     | 1,107              |
| Stock based compensation expense                                | 514                        | 254                | 847                       | 762                |
| Non-cash finance costs  | (2,619)                    | (135)              | (7,911)                   | 4,147              |
| Straight-line rent adjustment                                   | (1,408)                    | (271)              | (2,105)                   | (583)              |
| Fair value adjustment on investment properties (note 5 and 11)  | (3,070)                    | (5,183)            | 247                       | (10,040)           |
| Fair value adjustment on REIT units (note 10 and 11)            | (5,703)                    | (648)              | (13,508)                  | 26,307             |
| Gain on sale of assets  | (29)                       | (65)               | (37)                      | (127)              |
| Deferred income taxes   | (126)                      | (879)              | 11                        | (604)              |
|   | 14,604                     | 12,245             | 36,457                    | 38,433             |
| Agreements receivable   | 17,579                     | 7,200              | 27,672                    | 11,191             |
| Development activities  | (26,863)                   | (16,150)           | (31,403)                  | (17,390)           |
| Purchase of land inventory (note 4)                             | —                          | —                  | (4,247)                   | (3,037)            |
| Payment of tenant lease incentives and direct leasing costs     | (5,341)                    | (1,858)            | (9,942)                   | (5,991)            |
| Change in restricted cash                                       | (403)                      | (5,109)            | (1,899)                   | (2,882)            |
| Operating assets and liabilities                                | 9,058                      | 14,461             | (9,161)                   | 26,165             |
|   | 8,634                      | 10,789             | 7,477                     | 46,489             |
| <b>INVESTING ACTIVITIES</b>                                     |                            |                    |                           |                    |
| Purchase of investment properties (note 5)                      | —                          | —                  | —                         | (1,438)            |
| Additions to investment properties (note 5)                     | (6,744)                    | (6,857)            | (11,209)                  | (20,009)           |
| Net proceeds from disposal of investment properties (note 5)    | 1,309                      | 7,079              | 3,916                     | 7,425              |
| Purchase of property and equipment                              | (251)                      | (341)              | (662)                     | (1,036)            |
| Proceeds on disposal of property and equipment                  | 57                         | 101                | 70                        | 247                |
|   | (5,629)                    | (18)               | (7,885)                   | (14,811)           |
| <b>FINANCING ACTIVITIES</b>                                     |                            |                    |                           |                    |
| Revolving credit facilities                                     | 27,989                     | 12,337             | 55,711                    | 27,143             |
| Proceeds from general debt                                      | 27,077                     | 34,758             | 76,817                    | 94,101             |
| Repayment of general debt                                       | (36,705)                   | (44,628)           | (84,929)                  | (115,762)          |
| Repurchase of REIT units (note 10)                              | —                          | —                  | (25)                      | (533)              |
| Dividends paid  | (4,811)                    | (3,959)            | (13,977)                  | (10,576)           |
| Common shares repurchased (note 8)                              | (8,070)                    | (1,371)            | (13,332)                  | (1,679)            |
| Share capital issued  | 1,068                      | 9                  | 1,404                     | 9                  |
|   | 6,548                      | (2,854)            | 21,669                    | (7,297)            |
| <b>FOREIGN EXCHANGE GAIN ON CASH HELD IN A FOREIGN CURRENCY</b> | 736                        | 217                | 1,272                     | 100                |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD</b>  | 10,289                     | 8,134              | 22,533                    | 24,481             |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD</b>       | 72,164                     | 45,548             | 59,920                    | 29,201             |
| <b>CASH AND CASH EQUIVALENTS, END OF THE PERIOD</b>             | 82,453                     | 53,682             | 82,453                    | 53,682             |
| <b>Total income taxes paid</b>                                  | 9,105                      | 1,439              | 20,857                    | 8,041              |
| <b>Total interest paid</b>                                      | 6,222                      | 7,197              | 18,952                    | 21,555             |

See accompanying notes to these condensed interim consolidated financial statements.



## 1. DESCRIPTION OF THE BUSINESS

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

Melcor Developments Ltd. ("Melcor" or "we") is incorporated in Canada. The registered office is located at Suite 900, 10310 Jasper Avenue Edmonton, AB T5J 1Y8. We operate in Canada and the United States ("US"). Our shares are traded on the Toronto Stock Exchange under the symbol "MRD". As at September 30, 2022 Melton Holdings Ltd. holds approximately 48.9% of the outstanding shares and pursuant to IAS 24, Related party disclosures, is the ultimate controlling shareholder of Melcor.

As at November 8, 2022, Melcor through an affiliate, holds an approximate 55.4% effective interest in Melcor REIT ("REIT" or "the REIT") through ownership of all Class B LP Units of the Partnership and is the ultimate controlling party. Melcor continues to manage, administer and operate the REIT and its properties under an asset management agreement and property management agreement. Trust units of the REIT are traded on the Toronto Stock Exchange under the symbol "MR.UN".

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

## 2. BASIS OF PRESENTATION

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

These condensed interim consolidated financial statements should be read in conjunction with our annual consolidated financial statements for the year ended December 31, 2021, which have been prepared in accordance with IFRS.

These condensed interim consolidated financial statements were approved for issue by the Board of Directors on November 8, 2022.

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

### SIGNIFICANT ACCOUNTING POLICIES AND NEW STANDARDS ADOPTED

The accounting policies followed in these condensed interim consolidated financial statements are consistent with those of the previous financial year except as described below.

#### NEW AND AMENDED STANDARDS ADOPTED

We adopted the following amendment on January 1, 2022.

**IAS 37, Provisions, contingent liabilities and contingent assets** amendments were made to IAS 37, Provisions, contingent liabilities and contingent assets in order to clarify (i) the meaning of "costs to fulfil a contract", and (ii) that, before a separate provision for an onerous contract is established, an entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract. Adoption of this amendment did not require any adjustment in our treatment of provisions, contingent liabilities and contingent assets.

## 4. LAND INVENTORY

|                        | September 30, 2022 | December 31, 2021 |
|------------------------|--------------------|-------------------|
| Raw land held          | 394,416            | 387,598           |
| Land under development | 186,203            | 153,671           |
| Developed land         | 177,059            | 184,537           |
|                        | <b>757,678</b>     | 725,806           |

Land is recorded at the lower of cost and net realizable value. Due to the uncertainty of the economic environment, the net realizable value of land could be subject to significant changes and such changes could be material.

During the nine month period ended September 30, 2022, we purchased 13.01 acres of land in Buckeye, Arizona in the United States at a cost of \$4,247 (USD\$3,296) for cash. During the nine month period ended September 30, 2021, we purchased 17.1 acres of land also in Buckeye, Arizona in the United States at a cost of \$3,037 (USD\$2,450) for cash.

## 5. INVESTMENT PROPERTIES

Investment properties consists of the following:

|                              | September 30, 2022 | December 31, 2021 |
|------------------------------|--------------------|-------------------|
| Investment properties        | 1,084,688          | 1,071,456         |
| Properties under development | 50,755             | 47,349            |
| <b>Total</b>                 | <b>1,135,443</b>   | <b>1,118,805</b>  |

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

|  | Nine months ended<br>September 30, 2022 |                                 |                  |
|--|---|---------------------------------|------------------|
|  | Investment Properties                   | Properties under<br>Development | Total            |
| Balance - beginning of period                  | 1,071,456                               | 47,349                          | 1,118,805        |
| Additions                                      |   |                                 |                  |
| Direct leasing costs                           | 987                                     | 516                             | 1,503            |
| Property improvements                          | 2,530                                   | —                               | 2,530            |
| Development costs                              | —                                       | 8,567                           | 8,567            |
| Capitalized borrowing costs                    | —                                       | 112                             | 112              |
| Disposals                                      | (3,916)                                 | —                               | (3,916)          |
| Transfers                                      | 6,555                                   | (6,555)                         | —                |
| Fair value adjustment on investment properties | (1,013)                                 | 766                             | (247)            |
| Other adjustments                              | (893)                                   | —                               | (893)            |
| Foreign currency translation (included in OCI) | 8,982                                   | —                               | 8,982            |
| <b>Balance - end of period</b>                 | <b>1,084,688</b>                        | <b>50,755</b>                   | <b>1,135,443</b> |

|  | Year ended<br>December 31, 2021 |                                 |                  |
|--|---------------------------------|---------------------------------|------------------|
|  | Investment Properties           | Properties under<br>Development | Total            |
| Balance - beginning of year                    | 1,016,312                       | 64,765                          | 1,081,077        |
| Additions                                      |                                 |                                 |                  |
| Direct acquisition                             | —                               | 1,358                           | 1,358            |
| Transfer from land inventory                   | —                               | 301                             | 301              |
| Direct leasing costs                           | 1,341                           | 475                             | 1,816            |
| Property improvements                          | 3,294                           | —                               | 3,294            |
| Development costs                              | —                               | 19,041                          | 19,041           |
| Capitalized borrowing costs                    | —                               | 475                             | 475              |
| Disposals                                      | (7,425)                         | —                               | (7,425)          |
| Transfers                                      | 41,903                          | (41,903)                        | —                |
| Fair value adjustment on investment properties | 16,533                          | 2,837                           | 19,370           |
| Foreign currency translation (included in OCI) | (502)                           | —                               | (502)            |
| <b>Balance - end of year</b>                   | <b>1,071,456</b>                | <b>47,349</b>                   | <b>1,118,805</b> |

In accordance with our policy we record our investment properties at fair value. Fair value adjustments on investment properties are primarily driven by changes in capitalization rates and stabilized net operating income ("NOI"). Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 11.

During the nine month period ended September 30, 2022, we disposed of eight residential units in Arizona for cash price of \$3,916 (US\$3,053) (Q3-2021 - \$341 (US\$278)) (net of transaction costs). In the comparative, we disposed of an office building in Arizona for a net sale price of \$7,084 (US\$5,684)(net of transaction costs).

| 6. GENERAL DEBT                                      | September 30, 2022 | December 31, 2021 |
|--|--------------------|-------------------|
| Melcor - revolving credit facilities                 | 137,752            | 87,050            |
| REIT - revolving credit facility                     | 5,009              | —                 |
| Project specific financing                           | 17,213             | 40,758            |
| Secured vendor take back debt on land inventory      | 5,717              | 11,794            |
| Debt on investment properties and golf course assets | 532,201            | 506,382           |
| REIT - convertible debentures                        | 68,087             | 70,929            |
| <b>General debt</b>                                  | <b>765,979</b>     | <b>716,913</b>    |

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

|  | Nine months ended<br>September 30, 2022 | Year ended<br>December 31, 2021 |
|--|---|---------------------------------|
| <b>Balance - beginning of period</b>         | <b>40,758</b>                           | 66,248                          |
| <b>Cash movements</b>                        |   |                                 |
| Loan repayments                              | (43,125)                                | (30,056)                        |
| New project financing                        | 19,580                                  | 4,605                           |
| <b>Non-cash movements</b>                    |   |                                 |
| Foreign currency translation included in OCI | —                                       | (39)                            |
| <b>Balance - end of period</b>               | <b>17,213</b>                           | 40,758                          |

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

|                                      | Nine months ended<br>September 30, 2022 | Year ended<br>December 31, 2021 |
|--------------------------------------|---|---------------------------------|
| <b>Balance - beginning of period</b> | <b>11,794</b>                           | 28,616                          |
| <b>Cash movements</b>                |   |                                 |
| Principal repayments                 |   |                                 |
| Scheduled amortization on debt       | (6,077)                                 | (16,822)                        |
| <b>Balance - end of period</b>       | <b>5,717</b>                            | 11,794                          |

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

|  | Nine months ended<br>September 30, 2022 | Year ended<br>December 31, 2021 |
|--|---|---------------------------------|
| <b>Balance - beginning of period</b>         | <b>506,382</b>                          | 490,801                         |
| <b>Cash movements</b>                        |   |                                 |
| Principal repayments                         |   |                                 |
| Scheduled amortization on debt               | (24,978)                                | (17,076)                        |
| Mortgage repayments                          | (11,286)                                | (92,390)                        |
| New mortgages                                | 58,080                                  | 127,984                         |
| <b>Non-cash movements</b>                    |   |                                 |
| Mortgage amendment                           | (893)                                   | —                               |
| Deferred financing fees capitalized          | (1,069)                                 | (1,315)                         |
| Amortization of deferred financing fees      | 1,154                                   | 836                             |
| Change in derivative fair value swap         | 651                                     | (2,005)                         |
| Foreign currency translation included in OCI | 4,160                                   | (453)                           |
| <b>Balance - end of period</b>               | <b>532,201</b>                          | 506,382                         |

## 7. REVENUE

| Total Revenues             | For the three months ended |                    | For the nine months ended |                    |
|----------------------------|----------------------------|--------------------|---------------------------|--------------------|
|                            | September 30, 2022         | September 30, 2021 | September 30, 2022        | September 30, 2021 |
| Revenue from contracts     | 36,910                     | 35,074             | 96,070                    | 97,981             |
| Revenue from other sources | 24,226                     | 21,139             | 69,416                    | 67,049             |
|                            | <b>61,136</b>              | 56,213             | <b>165,486</b>            | 165,030            |

| Timing of contract revenue recognition | For the three months ended |                    | For the nine months ended |                    |
|--|----------------------------|--------------------|---------------------------|--------------------|
|  | September 30, 2022         | September 30, 2021 | September 30, 2022        | September 30, 2021 |
| At a point in time                     | 32,355                     | 30,636             | 80,892                    | 84,807             |
| Over time                              | 4,555                      | 4,438              | 15,178                    | 13,174             |
|  | <b>36,910</b>              | 35,074             | <b>96,070</b>             | 97,981             |

## 8. SHARE CAPITAL

Issued and outstanding common shares at September 30, 2022 are 32,061,202 (December 31, 2021 – 32,961,015). During the nine months ended September 30, 2022, there were 69,200 options exercised (Q3-2021 – 78,900).

On April 1, 2022 Melcor commenced a Normal Course Issuer (NCIB) which allowed us to purchase up to 1,641,627 shares for cancellation, representing approximately 5% of the issued and outstanding shares up to a maximum daily limit of 1,281 unless acquired under a block purchase exception. The price, which Melcor paid for shares repurchased under the plan, were the market price at the time of acquisition. The NCIB ends one year from commencement on March 31, 2023.

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

During the nine months ended September 30, 2022, there were 908,347 common shares purchased for cancellation by Melcor pursuant to the NCIB at a cost of \$13,332 (December 31, 2021 - 244,726 common shares purchased at a cost of \$3,350). Share capital was reduced by \$3,352 and retained earnings reduced by \$9,980.

## 9. SEGMENTED INFORMATION

### Geographic Analysis

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

| External Revenues | For the three months ended |                    | For the nine months ended |                    |
|-------------------|----------------------------|--------------------|---------------------------|--------------------|
|                   | September 30, 2022         | September 30, 2021 | September 30, 2022        | September 30, 2021 |
| United States     | 3,947                      | 17,675             | 11,797                    | 26,784             |
| Canada            | 57,189                     | 38,538             | 153,689                   | 138,246            |
| Total             | 61,136                     | 56,213             | 165,486                   | 165,030            |

### Total Assets

| As at         | September 30, 2022 | December 31, 2021 |
|---------------|--------------------|-------------------|
| United States | 279,660            | 287,421           |
| Canada        | 1,899,209          | 1,826,506         |
| Total         | 2,178,869          | 2,113,927         |

## 9. SEGMENTED INFORMATION (continued)

### Divisional Analysis

Our divisions reported the following results:

| For the three months ended<br>September 30, 2022  | Community<br>Development | Property<br>Development | Investment<br>Properties | REIT    | Recreational<br>Properties | Corporate | Subtotal        | Intersegment<br>Elimination | Total           |
|---|--------------------------|-------------------------|--------------------------|---------|----------------------------|-----------|-----------------|-----------------------------|-----------------|
| Revenue   | 28,411                   | 3,310                   | 11,593                   | 18,189  | 4,857                      | —         | <b>66,360</b>   | (5,224)                     | <b>61,136</b>   |
| Cost of sales                                     | (17,211)                 | (3,200)                 | (4,372)                  | (7,307) | (2,644)                    | —         | <b>(34,734)</b> | 3,753                       | <b>(30,981)</b> |
| Gross profit                                      | 11,200                   | 110                     | 7,221                    | 10,882  | 2,213                      | —         | <b>31,626</b>   | (1,471)                     | <b>30,155</b>   |
| General and administrative<br>expense             | (1,942)                  | (465)                   | (505)                    | (783)   | (845)                      | (2,620)   | <b>(7,160)</b>  | 831                         | <b>(6,329)</b>  |
| Fair value adjustment<br>on investment properties | —                        | 356                     | (4,263)                  | 6,337   | —                          | —         | <b>2,430</b>    | 640                         | <b>3,070</b>    |
| Gain on sale of assets                            | —                        | —                       | —                        | —       | 29                         | —         | <b>29</b>       | —                           | <b>29</b>       |
| Interest income                                   | 661                      | 2                       | 8                        | 7       | 1                          | 28        | <b>707</b>      | —                           | <b>707</b>      |
| Segment earnings (loss)                           | 9,919                    | 3                       | 2,461                    | 16,443  | 1,398                      | (2,592)   | <b>27,632</b>   | —                           | <b>27,632</b>   |
| Finance costs                                     |                          |                         |                          |         |                            |           |                 |                             | <b>(3,572)</b>  |
| Adjustments related to REIT<br>units              |                          |                         |                          |         |                            |           |                 |                             | <b>3,630</b>    |
| Income before tax                                 |                          |                         |                          |         |                            |           |                 |                             | <b>27,690</b>   |
| Income tax expense                                |                          |                         |                          |         |                            |           |                 |                             | <b>(3,916)</b>  |
| Net income for the period                         |                          |                         |                          |         |                            |           |                 |                             | <b>23,774</b>   |

| For the three months ended<br>September 30, 2021  | Community<br>Development | Property<br>Development | Investment<br>Properties | REIT    | Recreational<br>Properties | Corporate | Subtotal        | Intersegment<br>Elimination | Total           |
|---|--------------------------|-------------------------|--------------------------|---------|----------------------------|-----------|-----------------|-----------------------------|-----------------|
| Revenue   | 26,441                   | 8,740                   | 9,272                    | 18,089  | 4,658                      | —         | <b>67,200</b>   | (10,987)                    | <b>56,213</b>   |
| Cost of sales                                     | (16,453)                 | (8,700)                 | (3,884)                  | (7,248) | (2,406)                    | —         | <b>(38,691)</b> | 9,378                       | <b>(29,313)</b> |
| Gross profit                                      | 9,988                    | 40                      | 5,388                    | 10,841  | 2,252                      | —         | <b>28,509</b>   | (1,609)                     | <b>26,900</b>   |
| General and administrative<br>expense             | (1,820)                  | (431)                   | (470)                    | (717)   | (777)                      | (1,829)   | <b>(6,044)</b>  | 838                         | <b>(5,206)</b>  |
| Fair value adjustment<br>on investment properties | —                        | 2,272                   | (395)                    | 2,535   | —                          | —         | <b>4,412</b>    | 771                         | <b>5,183</b>    |
| Gain on sale of assets                            | —                        | —                       | —                        | —       | 65                         | —         | <b>65</b>       | —                           | <b>65</b>       |
| Interest income                                   | 142                      | —                       | —                        | 7       | —                          | 5         | <b>154</b>      | —                           | <b>154</b>      |
| Segment earnings (loss)                           | 8,310                    | 1,881                   | 4,523                    | 12,666  | 1,540                      | (1,824)   | <b>27,096</b>   | —                           | <b>27,096</b>   |
| Finance costs                                     |                          |                         |                          |         |                            |           |                 |                             | <b>(5,966)</b>  |
| Adjustments related to REIT<br>units              |                          |                         |                          |         |                            |           |                 |                             | <b>(843)</b>    |
| Income before tax                                 |                          |                         |                          |         |                            |           |                 |                             | <b>20,287</b>   |
| Income tax expense                                |                          |                         |                          |         |                            |           |                 |                             | <b>(3,726)</b>  |
| Net income for the period                         |                          |                         |                          |         |                            |           |                 |                             | <b>16,561</b>   |

| For the nine months ended<br>September 30, 2022   | Community<br>Development | Property<br>Development | Investment<br>Properties | REIT     | Recreational<br>Properties | Corporate | Subtotal        | Intersegment<br>Elimination | Total           |
|---|--------------------------|-------------------------|--------------------------|----------|----------------------------|-----------|-----------------|-----------------------------|-----------------|
| Revenue   | 74,662                   | 7,124                   | 32,156                   | 55,308   | 9,619                      | —         | <b>178,869</b>  | (13,383)                    | <b>165,486</b>  |
| Cost of sales                                     | (45,459)                 | (6,900)                 | (12,722)                 | (22,846) | (5,021)                    | —         | <b>(92,948)</b> | 8,658                       | <b>(84,290)</b> |
| Gross Profit                                      | 29,203                   | 224                     | 19,434                   | 32,462   | 4,598                      | —         | <b>85,921</b>   | (4,725)                     | <b>81,196</b>   |
| General and administrative<br>expense             | (5,586)                  | (1,664)                 | (2,201)                  | (2,381)  | (2,070)                    | (6,072)   | <b>(19,974)</b> | 2,324                       | <b>(17,650)</b> |
| Fair value adjustment on<br>investment properties | —                        | 766                     | (549)                    | (2,865)  | —                          | —         | <b>(2,648)</b>  | 2,401                       | <b>(247)</b>    |
| Gain on sale of assets                            | —                        | —                       | —                        | —        | 37                         | —         | <b>37</b>       | —                           | <b>37</b>       |
| Interest Income                                   | 973                      | 2                       | 14                       | 22       | 2                          | 77        | <b>1,090</b>    | —                           | <b>1,090</b>    |
| Segment earnings (loss)                           | 24,590                   | (672)                   | 16,698                   | 27,238   | 2,567                      | (5,995)   | <b>64,426</b>   | —                           | <b>64,426</b>   |
| Finance costs                                     |                          |                         |                          |          |                            |           |                 |                             | <b>(10,484)</b> |
| Adjustments related to REIT<br>units              |                          |                         |                          |          |                            |           |                 |                             | <b>8,323</b>    |
| Income before tax                                 |                          |                         |                          |          |                            |           |                 |                             | <b>62,265</b>   |
| Income tax expense                                |                          |                         |                          |          |                            |           |                 |                             | <b>(10,113)</b> |
| Net income for the period                         |                          |                         |                          |          |                            |           |                 |                             | <b>52,152</b>   |

| For the nine months ended<br>September 30, 2021   | Community<br>Development | Property<br>Development | Investment<br>Properties | REIT     | Recreational<br>Properties | Corporate | Subtotal         | Intersegment<br>Elimination | Total           |
|---|--------------------------|-------------------------|--------------------------|----------|----------------------------|-----------|------------------|-----------------------------|-----------------|
| Revenue   | 78,832                   | 12,011                  | 29,430                   | 55,552   | 9,291                      | —         | <b>185,116</b>   | (20,086)                    | <b>165,030</b>  |
| Cost of sales                                     | (49,583)                 | (11,900)                | (11,953)                 | (22,331) | (4,754)                    | —         | <b>(100,521)</b> | 14,982                      | <b>(85,539)</b> |
| Gross profit                                      | 29,249                   | 111                     | 17,477                   | 33,221   | 4,537                      | —         | <b>84,595</b>    | (5,104)                     | <b>79,491</b>   |
| General and administrative<br>expense             | (5,071)                  | (1,344)                 | (1,632)                  | (2,215)  | (1,953)                    | (5,185)   | <b>(17,400)</b>  | 2,338                       | <b>(15,062)</b> |
| Fair value adjustment<br>on investment properties | —                        | 1,133                   | 3,476                    | 2,665    | —                          | —         | <b>7,274</b>     | 2,766                       | <b>10,040</b>   |
| Gain on sale of assets                            | —                        | —                       | —                        | —        | 127                        | —         | <b>127</b>       | —                           | <b>127</b>      |
| Interest income                                   | 405                      | —                       | 1                        | 20       | —                          | 21        | <b>447</b>       | —                           | <b>447</b>      |
| Segment earnings (loss)                           | 24,583                   | (100)                   | 19,322                   | 33,691   | 2,711                      | (5,164)   | <b>75,043</b>    | —                           | <b>75,043</b>   |
| Finance costs                                     |                          |                         |                          |          |                            |           |                  |                             | <b>(22,607)</b> |
| Adjustments related to REIT<br>units              |                          |                         |                          |          |                            |           |                  |                             | <b>(30,529)</b> |
| Income before tax                                 |                          |                         |                          |          |                            |           |                  |                             | <b>21,907</b>   |
| Income tax expense                                |                          |                         |                          |          |                            |           |                  |                             | <b>(10,365)</b> |
| Net income for the period                         |                          |                         |                          |          |                            |           |                  |                             | <b>11,542</b>   |

## 10. NON-CONTROLLING INTEREST IN MELCOR REIT

In accordance with our policy, we account for the remaining 44.6% publicly held interest in the REIT as a financial liability measured at fair value through profit or loss (“FVTPL”). As at September 30, 2022 the REIT units had a fair value of \$74,742. We recorded adjustments related to REIT units for the three and nine months ended September 30, 2022 of \$3,630 and \$8,323 (September 30, 2021 - \$843 and \$30,529). As the valuation of the REIT units is dependent on the trading price of the REIT’s trust units, the impact of volatility in equity markets on the fair value cannot be estimated at this time and such impact could be material.



On April 1, 2021 the REIT commenced a normal course issuer bid ("REIT NCIB") which allows the REIT to purchase up to 652,525 trust units for cancellation, representing approximately 5% of the REIT's issued and outstanding trust units. The trust units may be repurchased up to a maximum daily limit of 3,824. The price which the REIT will pay for trust units repurchased under the plan will be the market price at the time of acquisition. The REIT NCIB ended on March 31, 2022.

Prior to the NCIB expiration for the nine months ended September 30, 2022, a total of 3,824 units (2021 - 85,683) was purchased for cancellation at a cost of \$25 (2021 - \$533), which is recorded as a reduction in the balance of REIT units on the consolidated statement of financial position.

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

|   | For the three months ended |                    | For the nine months ended |                    |
|---|----------------------------|--------------------|---------------------------|--------------------|
|   | September 30, 2022         | September 30, 2021 | September 30, 2022        | September 30, 2021 |
| Fair value adjustment on REIT units (note 11) | 5,703                      | 648                | 13,508                    | (26,307)           |
| Distributions to REIT unitholders             | (2,073)                    | (1,491)            | (5,185)                   | (4,222)            |
| <b>Adjustments related to REIT units</b>      | <b>3,630</b>               | <b>(843)</b>       | <b>8,323</b>              | <b>(30,529)</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.

| As at                    | September 30, 2022 | December 31, 2021 |
|--------------------------|--------------------|-------------------|
| Assets                   | 736,927            | 735,668           |
| Liabilities              | 452,911            | 460,344           |
| <b>Net assets</b>        | <b>284,016</b>     | <b>275,324</b>    |
| Cost of NCI              | 103,959            | 103,959           |
| <b>Fair value of NCI</b> | <b>74,742</b>      | <b>88,275</b>     |

|   | For the three months ended |                    | For the nine months ended |                    |
|---|----------------------------|--------------------|---------------------------|--------------------|
|   | September 30, 2022         | September 30, 2021 | September 30, 2022        | September 30, 2021 |
| Rental revenue  | 18,189                     | 18,089             | 55,308                    | 55,552             |
| Net income (loss) and comprehensive income (loss)                                 | 19,151                     | 7,470              | 30,672                    | (21,588)           |
| Cash flows from operating activities  | 819                        | 4,540              | 7,542                     | 12,332             |
| Cash flows used in investing activities   | (782)                      | (790)              | (1,699)                   | (1,956)            |
| Cash flows used in financing activities, before distributions to REIT unitholders | (322)                      | (1,322)            | (5,720)                   | (4,374)            |
| Cash flows used in financing activities - cash distributions to REIT unitholders  | (1,555)                    | (1,426)            | (4,667)                   | (4,092)            |
| <b>Net (decrease) increase in cash and cash equivalents</b>                       | <b>(1,840)</b>             | <b>1,002</b>       | <b>(4,544)</b>            | <b>1,910</b>       |

## 11. FAIR VALUE MEASUREMENT

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

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

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

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

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

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

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

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

|   | September 30, 2022   |            |                |                      |                  | December 31, 2021    |                  |
|---|----------------------|------------|----------------|----------------------|------------------|----------------------|------------------|
|   | Fair Value Hierarchy | Fair Value | Amortized Cost | Total Carrying Value | Total Fair Value | Total Carrying Value | Total Fair Value |
| <b>Non-financial assets</b>   |                      |            |                |                      |                  |                      |                  |
| Investment properties   | Level 3              | 1,135,443  | —              | 1,135,443            | 1,135,443        | 1,118,805            | 1,118,805        |
| <b>Financial liabilities</b>  |                      |            |                |                      |                  |                      |                  |
| General debt, excluding convertible debentures and derivative financial liability | Level 3              | —          | 697,892        | 697,892              | 628,402          | 646,613              | 659,699          |
| Convertible debentures  | Level 2              | —          | 66,677         | 66,677               | 63,903           | 65,637               | 63,683           |
| <b>Derivative financial liabilities</b>   |                      |            |                |                      |                  |                      |                  |
| Conversion features on convertible debentures                                     | Level 3              | 1,410      | —              | 1,410                | 1,410            | 5,408                | 5,408            |
| REIT units  | Level 1              | 74,742     | —              | 74,742               | 74,742           | 88,275               | 88,275           |
| <b>Derivative financial assets</b>  |                      |            |                |                      |                  |                      |                  |
| Interest rate swaps   | Level 3              | 6,288      | —              | 6,288                | 6,288            | 629                  | 629              |
| Conversion features on convertible debentures                                     | Level 3              | —          | —              | —                    | —                | 116                  | 116              |

### Investment properties

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

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

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

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

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

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

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

Melcor's executive management team is responsible for determining fair value measurements on a quarterly basis, including verifying all major inputs included in the valuation and reviewing the results. Melcor's management, along with the Audit Committee, discuss the valuation process and key inputs on a quarterly basis. At least once every two years, the valuations are performed by qualified external 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 are valued by Melcor's internal valuation team. For the nine months ended September 30, 2022 46 legal phases included in investment properties (of 93 legal phases) with a fair value of \$651,530 were valued by external valuation professionals (year ended December 31, 2021 - 29 legal phases included in investment properties (of 93 legal phases) with a fair value of \$316,540). Valuations performed during the period resulted in net fair value losses of \$247 (December 31, 2021 - net fair value gains of \$19,370).

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

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

Weighted average annual stabilized net operating income for investment properties as at September 30, 2022 is \$1,415 (December 31, 2021 - \$1,444) per property. Other significant valuation metrics and unobservable inputs are set out in the following table. Fair values are most sensitive to changes in capitalization rates.

|                              | Investment Properties |        |                  | Properties under Development |       |                  |
|------------------------------|-----------------------|--------|------------------|------------------------------|-------|------------------|
|                              | Min                   | Max    | Weighted Average | Min                          | Max   | Weighted Average |
| <b>September 30, 2022</b>    |                       |        |                  |                              |       |                  |
| Capitalization rate          | 5.25%                 | 10.00% | 6.79%            | 6.00%                        | 6.25% | 6.20%            |
| Terminal capitalization rate | 5.75%                 | 8.50%  | 6.80%            | 6.25%                        | 6.50% | 6.45%            |
| Discount rate                | 6.25%                 | 9.50%  | 7.83%            | 7.25%                        | 7.50% | 7.38%            |
|                              | Investment Properties |        |                  | Properties under Development |       |                  |
|                              | Min                   | Max    | Weighted Average | Min                          | Max   | Weighted Average |
| <b>December 31, 2021</b>     |                       |        |                  |                              |       |                  |
| Capitalization rate          | 5.25%                 | 10.00% | 6.68%            | 5.75%                        | 6.25% | 5.99%            |
| Terminal capitalization rate | 5.75%                 | 9.00%  | 6.83%            | 6.00%                        | 6.50% | 6.24%            |
| Discount rate                | 6.25%                 | 9.75%  | 7.75%            | 7.00%                        | 7.50% | 7.22%            |

An increase in capitalization rates by 50 basis points would decrease the fair value and carrying amount of investment properties by \$69,500 (December 31, 2021 - \$65,900). A decrease in capitalization rates by 50 basis points would increase the fair value and carrying amount of investment properties by \$80,500 (December 31, 2021 - \$76,600). The economic environment continues to remain uncertain with both rising interest rates and increased inflation impacting valuations. The estimates used in our valuation models are subject to significant changes and such changes could be material.

#### **General debt, excluding derivative financial liabilities**

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

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

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

#### **Derivative financial assets and liabilities**

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

The fair value of the interest rate swaps are calculated as the net present value of the future cash flows expected to arise on the variable and fixed portion, determined using applicable yield curves at the measurement date. As at September 30, 2022, the fair value of interest rate swap contracts was \$6,288 (December 31, 2021 - \$629).

The significant assumptions used in the fair value measurement of the conversion features on the REIT convertible debentures are volatility and credit spread. As at September 30, 2022 the fair value of the conversion features on our convertible debentures was \$1,410 liability (December 31, 2021 - \$5,408 liability and \$116 asset). It is currently not possible to estimate the long-term impact of rising interest rates and inflation on the economy, including the equity markets. As the valuation of the conversion features on our REIT convertible debentures is dependent on the historical price of the REIT's trust units and the trading price of the convertible debentures, the impact on the valuation of the conversion features on REIT convertible debentures cannot be estimated at this time and such impact could be material.

#### **REIT units**

REIT units are remeasured to fair value on a recurring basis and categorized as level 1 in the fair value hierarchy. The units are fair valued based on the trading price of the REIT units at the period end date. At September 30, 2022 the fair value of the REIT units was \$74,742, resulting in a fair value gain during the nine months ended of \$13,508 (September 30, 2021 - loss of \$26,307) in the statement of income and comprehensive income for the period ended ended September 30, 2022 (note 10). It is currently not possible to estimate the long-term impact of rising interest rates and inflation on the economy, including the equity markets. As the valuation of the REIT units is dependent on the trading price of the REIT's trust units, the impact on the fair value cannot be estimated at this time and such impact could be material.

## 12. RISK MANAGEMENT

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

### a. Credit Risk

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

Accounts receivables have historically been significantly low risk due to their individual immaterial balances, the nature of the party they are due from (including joint venture participants under management by Melcor), and overall lack of historical write offs. At this time, based on management's best estimate of the current economic outlook, management has assessed and recorded the current expected credit loss at \$562 (December 31, 2021 - \$604).

Agreements receivable are collateralized by specific real estate sold. Agreements receivable relate primarily to land sales in Alberta and, accordingly, collection risk is related to the economic conditions of that region. We manage credit risk by selling to certain qualified registered builders. Concentration risk is low as we sell to a large builder base, and no receivables are concentrated to one specific builder and Melcor maintains an approved builder list containing those builders which have a long standing track record, good volumes, positive perception in the industry, and strong history of repayment.

Currently, Melcor's overdue agreements receivable balances as a percent of total agreements receivables has slightly decreased from year end, and as we keep in constant contact with our builders and work with them on extensions, we do not consider any balances to be at risk of not being collected. At this time, the impact to our risk for accounts receivable and expected loss rate for our agreements receivable is not considered material. Melcor will continue to monitor changes to the economic environment during these uncertain times and as such estimates could be subject to changes and such changes may be material.

### b. Liquidity Risk

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

### c. Interest Rate Risk

We are subject to interest rate cash flow risk as our operating credit facilities and certain of our general debt bear interest at rates that vary in accordance with prime borrowing rates in Canada. For each 1% change in the rate of interest on loans subject to floating rates, the change in annual interest expense is approximately \$2,648 (December 31, 2021 - \$2,052). We are not subject to other significant market risks pertaining to our financial instruments.

### 13. EVENTS AFTER THE REPORTING PERIOD

#### *Distributions on REIT trust units*

Subsequent to the quarter, the REIT declared distributions for November and December and will be paying the previously declared October distribution as follows:

| Month         | Record Date       | Declaration Date | Distribution Date | Distribution Amount |
|---------------|-------------------|------------------|-------------------|---------------------|
| October 2022  | October 31, 2022  | August 15, 2022  | November 15, 2022 | \$0.04 per Unit     |
| November 2022 | November 30, 2022 | November 3, 2022 | December 15, 2022 | \$0.04 per Unit     |
| December 2022 | December 30, 2022 | November 3, 2022 | January 16, 2023  | \$0.04 per Unit     |

#### *Dividends declared*

On November 8, 2022 our board of directors declared a dividend of \$0.15 per share payable on December 30, 2022 to shareholders of record on December 15, 2022.