



Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2024

(Unaudited, in thousands of Canadian dollars)

## Condensed Interim Consolidated Statement of Income

Unaudited (\$000s)	For the three months ended	
	March 31, 2024	March 31, 2023
Revenue (note 8)	49,748	36,077
Cost of sales	(26,140)	(17,842)
Gross profit	23,608	18,235
General and administrative expense	(5,851)	(5,506)
Fair value adjustment on investment properties (note 5 and 14)	(8,833)	(2,484)
Adjustments related to REIT units (note 13 and 14)	11,537	777
Gain on sale of assets	47	—
Operating earnings	20,508	11,022
Interest income	542	699
Foreign exchange gain (loss)	35	(373)
Finance costs (note 9)	(6,217)	(9,321)
Net finance costs	(5,640)	(8,995)
Income before income taxes	14,868	2,027
Income tax (expense) recovery	(2,080)	126
Net income for the period	12,788	2,153
Income per share:		
Basic income per share	0.42	0.07
Diluted income per share	0.42	0.07

See accompanying notes to these condensed interim consolidated financial statements.

## Condensed Interim Consolidated Statement of Comprehensive Income

Unaudited (\$000s)	For the three months ended	
	March 31, 2024	March 31, 2023
Net income for the period	12,788	2,153
Other comprehensive income		
Items that may be reclassified subsequently to net income:		
Currency translation differences	4,963	172
Comprehensive income	17,751	2,325

See accompanying notes to these condensed interim consolidated financial statements.

## Condensed Interim Consolidated Statement of Financial Position

Unaudited (\$000s)	March 31, 2024	December 31, 2023
<b>ASSETS</b>		
Cash and cash equivalents	30,914	34,690
Restricted cash	1,765	1,719
Accounts receivable	8,448	10,631
Income taxes recoverable	4,550	2,998
Agreements receivable	126,147	126,070
Land inventory (note 4)	727,096	728,002
Investment properties (note 5 and 14)	1,072,482	1,084,906
Property and equipment	11,958	11,679
Other assets	56,927	58,766
Assets held for sale (note 6 and 14)	41,577	33,774
Derivative financial assets (note 14)	5,170	4,238
	<b>2,087,034</b>	<b>2,097,473</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	39,269	48,257
Income taxes payable	—	1,246
Provision for land development costs	46,488	50,130
General debt (note 7)	671,078	670,174
Deferred income tax liabilities	65,186	64,291
REIT units (note 13 and 14)	41,741	53,797
	<b>863,762</b>	<b>887,895</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 10)	69,306	69,493
Contributed surplus	5,332	5,036
Accumulated other comprehensive income (AOCI)	29,623	24,660
Retained earnings	1,119,011	1,110,389
	<b>1,223,272</b>	<b>1,209,578</b>
	<b>2,087,034</b>	<b>2,097,473</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, 2024</b>	<b>69,493</b>	<b>5,036</b>	<b>24,660</b>	<b>1,110,389</b>	<b>1,209,578</b>
Net income for the period	—	—	—	12,788	12,788
Cumulative translation adjustment	—	—	4,963	—	4,963
<b>Transactions with equity holders</b>					
Dividends	—	—	—	(3,363)	(3,363)
Share repurchase (note 10)	(187)	—	—	(803)	(990)
Employee share options					
Value of services recognized	—	296	—	—	296
<b>Balance at March 31, 2024</b>	<b>69,306</b>	<b>5,332</b>	<b>29,623</b>	<b>1,119,011</b>	<b>1,223,272</b>

Unaudited (\$000's)	Equity attributable to Melcor's shareholders				Total equity
	Share capital	Contributed surplus	AOCI	Retained earnings	
<b>Balance at January 1, 2023</b>	<b>70,218</b>	<b>4,810</b>	<b>29,598</b>	<b>1,073,710</b>	<b>1,178,336</b>
Net income for the period	—	—	—	2,153	2,153
Cumulative translation adjustment	—	—	172	—	172
<b>Transactions with equity holders</b>					
Dividends	—	—	—	(5,000)	(5,000)
Employee share options					
Value of services recognized	—	230	—	—	230
<b>Balance at March 31, 2023</b>	<b>70,218</b>	<b>5,040</b>	<b>29,770</b>	<b>1,070,863</b>	<b>1,175,891</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	
	March 31, 2024	March 31, 2023
<b>CASH FLOWS FROM (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>		
Net income for the period	12,788	2,153
Non cash items:		
Amortization of tenant incentives	4,138	2,320
Depreciation of property and equipment	142	145
Stock based compensation expense	296	230
Non-cash finance (recoveries) costs	(1,227)	2,778
Straight-line rent adjustment	(34)	(372)
Fair value adjustment on investment properties (note 5 and 14)	8,833	2,484
Fair value adjustment on REIT units (note 13 and 14)	(12,056)	(2,333)
Gain on sale of assets	(47)	—
Deferred income taxes	881	(732)
	13,714	6,673
Agreements receivable	(77)	11,199
Development activities	515	(4,495)
Purchase of land inventory (note 4)	—	(2,400)
Payment of tenant lease incentives and direct leasing costs	(3,230)	(4,995)
Operating assets and liabilities	(9,061)	(11,054)
	1,861	(5,072)
<b>INVESTING ACTIVITIES</b>		
Additions to investment properties (note 5)	(2,075)	(3,706)
Net proceeds from disposal of investment properties (note 5)	946	1,229
Net proceeds from disposal of asset held for sale (note 6)	—	18,025
Change in restricted cash (note 6)	—	1,000
Purchase of property and equipment	(487)	(86)
Proceeds on disposal of property and equipment	123	—
	(1,493)	16,462
<b>FINANCING ACTIVITIES</b>		
Revolving credit facilities	4,082	(22,234)
Proceeds from general debt	431	1,030
Repayment of general debt	(4,427)	(14,173)
Dividends paid	(3,363)	(5,000)
Common shares repurchased (note 10)	(990)	—
	(4,267)	(40,377)
<b>FOREIGN EXCHANGE GAIN (LOSS) ON CASH HELD IN A FOREIGN CURRENCY</b>	123	(25)
<b>DECREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD</b>	(3,776)	(29,012)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD</b>	34,690	80,465
<b>CASH AND CASH EQUIVALENTS, END OF THE PERIOD</b>	30,914	51,453
<b>Total income taxes paid</b>	3,934	3,045
<b>Total interest paid</b>	8,520	8,459

See accompanying notes to these condensed interim consolidated financial statements.

## 1. DESCRIPTION OF THE BUSINESS

We are a real estate development company with Land, Properties, REIT and Golf divisions. We develop, manage, and own mixed-use residential communities, business and industrial parks, office buildings, retail commercial centres, and golf courses.

Melcor Developments Ltd. (“Melcor” or “we”) is incorporated in Canada. The registered office is located at Suite 900, 10310 Jasper Avenue Edmonton, AB T5J 1Y8. We operate in Canada and the United States (“US”). Our shares are traded on the Toronto Stock Exchange under the symbol “MRD”. As at March 31, 2024 Melton Holdings Ltd. holds approximately 51.3% of the outstanding shares and pursuant to IAS 24, Related party disclosures, is the ultimate controlling shareholder of Melcor.

As at May 14, 2024, Melcor 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 Accounting Standards”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting.

The statement of financial position is presented without reference to current assets or current liabilities. The operating cycle of an entity involved in real estate investment and development is normally considered to be longer than one year. Thus, the concept of current assets and current liabilities is not considered relevant and there is no need to segregate the balance sheet to disclose assets or liabilities that are expected to be settled within the immediately following year.

These condensed interim consolidated financial statements should be read in conjunction with our annual consolidated financial statements for the year ended December 31, 2023, which have been prepared in accordance with IFRS Accounting Standards.

These condensed interim consolidated financial statements were approved for issue by the Board of Directors on May 14, 2024.

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

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

## 4. LAND INVENTORY

	March 31, 2024	December 31, 2023
Raw land held	379,710	377,946
Land under development	208,236	201,879
Developed land	139,150	148,177
	<b>727,096</b>	<b>728,002</b>

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

During the three month period ended March 31, 2024 no land was purchased. During the three month period ended March 31, 2023, we purchased 40.00 acres of land in Leduc, Alberta at a cost of \$2,400 for cash.

## 5. INVESTMENT PROPERTIES

Investment properties consists of the following:

	March 31, 2024	December 31, 2023
Investment properties	993,574	1,001,585
Properties under development	78,908	83,321
<b>Total</b>	<b>1,072,482</b>	<b>1,084,906</b>

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

	Three months ended March 31, 2024		
	Investment Properties	Properties under Development	Total
Balance - beginning of period	1,001,585	83,321	1,084,906
Additions			
Direct leasing costs	402	91	493
Property improvements	536	—	536
Development costs	—	1,529	1,529
Capitalized borrowing costs	—	10	10
Disposals	(946)	—	(946)
Transfers	6,089	(6,089)	—
Fair value adjustment on investment properties	(8,879)	46	(8,833)
Investment properties classified as held for sale (note 6)	(7,781)	—	(7,781)
Foreign currency translation (included in OCI)	2,568	—	2,568
<b>Balance - end of period</b>	<b>993,574</b>	<b>78,908</b>	<b>1,072,482</b>

	Year ended December 31, 2023		
	Investment Properties	Properties under Development	Total
Balance - beginning of year	1,059,490	65,293	1,124,783
Additions			
Transfer from land inventory	—	3,104	3,104
Direct leasing costs	1,481	508	1,989
Property improvements	5,967	—	5,967
Development costs	—	14,904	14,904
Capitalized borrowing costs	—	691	691
Disposals	(7,822)	—	(7,822)
Transfers	9,481	(9,481)	—
Fair value adjustment on investment properties	(32,758)	8,302	(24,456)
Investment property classified as held for sale (note 6)	(32,143)	—	(32,143)
Other adjustments	287	—	287
Foreign currency translation (included in OCI)	(2,398)	—	(2,398)
<b>Balance - end of year</b>	<b>1,001,585</b>	<b>83,321</b>	<b>1,084,906</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 14.

**Disposals in the three month period ended March 31, 2024:**

- We disposed of two residential units in Arizona for net sale price of \$946 (US\$694) net of transaction costs.

**Disposals in prior year ended December 31, 2023:**

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

**6. ASSETS HELD FOR SALE**

As at March 31, 2024, assets held for sale includes three REIT retail properties and one REIT office building with a fair value of \$41,577 (including investment property of \$39,924, tenant incentives of \$1,364 and straight-line rent of \$289). As at March 31, 2024 management has listed these assets for sale with the intention to sell the properties. As at December 31, 2023, assets held for sale included three retail properties with a fair value of \$33,774 (including investment property of \$32,143, tenant incentives of \$1,360 and straight-line rent of \$271).

On February 1, 2023, we disposed of an investment property classified as asset held for sale at December 31, 2022 for net proceeds of \$19,025 (including a \$1,000 deposit held as restricted cash at December 31, 2022), resulting from a purchase price of \$19,500 less transaction costs of \$475. The price was settled in cash, excluding working capital adjustments. Proceeds from the sale were used to repay the outstanding principal balance on the mortgage of \$8,727 with the remaining cash being used to reduce our borrowings on our credit facility.

**7. GENERAL DEBT**

	March 31, 2024	December 31, 2023
Melcor - revolving credit facilities	76,311	71,976
REIT - revolving credit facility	37,607	37,860
Project specific financing	8,155	7,724
Debt on investment properties and golf course assets	503,585	507,463
REIT - convertible debentures	45,420	45,151
General debt	671,078	670,174

Interest rate reform and replacement of benchmark interest rates such as CDOR and other inter-bank offered rates ('IBORs') has become a priority for global regulators. Our credit facility agreements and debt on investment property references CDOR/ Banker's Acceptance. As at March 31, 2024, these loans have not transitioned to alternative interest rate benchmarks.

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

	Three months ended March 31, 2024	Year ended December 31, 2023
<b>Balance - beginning of period</b>	<b>7,724</b>	22,597
<b>Cash movements</b>		
Loan repayments	—	(16,826)
New project financing	431	1,953
<b>Balance - end of period</b>	<b>8,155</b>	7,724



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

	Three months ended March 31, 2024	Year ended December 31, 2023
<b>Balance - beginning of period</b>	<b>507,463</b>	539,110
<b>Cash movements</b>		
Principal repayments		
Scheduled amortization on debt	(4,427)	(18,012)
Mortgage repayments	—	(36,360)
New mortgages	—	22,490
<b>Non-cash movements</b>		
Deferred financing fees capitalized	(15)	(546)
Amortization of deferred financing fees	174	772
Change in derivative fair value swap	(782)	1,130
Foreign currency translation included in OCI	1,172	(1,121)
<b>Balance - end of period</b>	<b>503,585</b>	507,463

## 8. REVENUE

	For the three months ended	
	March 31, 2024	March 31, 2023
<b>Total Revenues</b>		
Revenue from contracts	25,820	13,232
Revenue from other sources	23,928	22,845
	<b>49,748</b>	36,077

	For the three months ended	
	March 31, 2024	March 31, 2023
<b>Timing of contract revenue recognition</b>		
At a point in time	20,335	7,845
Over time	5,485	5,387
	<b>25,820</b>	13,232

## 9. FINANCE COSTS

	For the three months ended	
	March 31, 2024	March 31, 2023
Interest on Melcor - revolving credit facilities	1,411	1,415
Interest on REIT - revolving credit facility	758	542
Interest on REIT - convertible debentures	587	587
Interest on general debt	5,196	5,134
Financing costs and bank charges	356	324
Gain on settlement of interest rate swap	(50)	(61)
Non cash financing (recoveries) costs	(1,227)	2,778
	7,031	10,719
Less: capitalized interest	(814)	(1,398)
	6,217	9,321

Finance costs paid during the three months ended March 31, 2024 were \$8,520 (2023 - \$8,459). Non cash financing costs (recoveries) include debentures accretion expense, debentures amortized fees and fair value adjustment on derivatives.

## 10. SHARE CAPITAL

Issued and outstanding common shares at March 31, 2024 are 30,576,837 (December 31, 2023 – 30,662,453 shares). During the three months ended March 31, 2024, there were no options exercised (Q1 2023 – no options exercised).

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

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

During the three months ended March 31, 2024, 85,616 shares were purchased for cancellation by Melcor pursuant to the NCIB at a cost of \$990 (December 31, 2023 - 712,160 shares purchased at a cost of \$8,098). Share capital was reduced by \$187 (December 31, 2023 - \$1,556) and retained earnings was reduced by \$803 (December 31, 2023 - \$6,542).

## 11. SEGMENTED INFORMATION

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

### Geographic Analysis

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

External Revenues	For the three months ended	
	March 31, 2024	March 31, 2023
United States	3,623	3,775
Canada	46,125	32,302
Total	49,748	36,077

## 11. SEGMENTED INFORMATION (continued)

### Total Assets

As at	March 31, 2024	December 31, 2023
United States	246,663	240,210
Canada	1,840,371	1,857,263
<b>Total</b>	<b>2,087,034</b>	<b>2,097,473</b>

### Divisional Analysis

Our divisions reported the following results:

For the three months ended	Land	Properties	REIT	Golf	Corporate	Subtotal	Intersegment Elimination	Total
March 31, 2024								
Revenue	21,066	11,696	18,905	143	—	51,810	(2,062)	49,748
Cost of sales	(12,716)	(5,121)	(8,334)	(565)	—	(26,736)	596	(26,140)
Gross profit	8,350	6,575	10,571	(422)	—	25,074	(1,466)	23,608
General and administrative expense	(1,931)	(1,248)	(1,020)	(355)	(1,965)	(6,519)	668	(5,851)
Fair value adjustment on investment properties	—	(575)	(9,056)	—	—	(9,631)	798	(8,833)
Gain on sale of assets	—	—	—	47	—	47	—	47
Interest income	468	31	14	3	26	542	—	542
Segment earnings (loss)	6,887	4,783	509	(727)	(1,939)	9,513	—	9,513
Finance costs								(6,217)
Foreign exchange gain								35
Adjustments related to REIT units								11,537
Income before tax								14,868
Income tax expense								(2,080)
Net income for the period								12,788

For the three months ended	Land	Properties	REIT	Golf	Corporate	Subtotal	Intersegment Elimination	Total
March 31, 2023								
Revenue	8,218	10,829	18,990	70	—	38,107	(2,030)	36,077
Cost of sales	(5,007)	(4,613)	(8,352)	(498)	—	(18,470)	628	(17,842)
Gross profit	3,211	6,216	10,638	(428)	—	19,637	(1,402)	18,235
General and administrative expense	(1,842)	(1,301)	(779)	(393)	(1,874)	(6,189)	683	(5,506)
Fair value adjustment on investment properties	—	(1,617)	(1,586)	—	—	(3,203)	719	(2,484)
Interest income	545	23	19	—	112	699	—	699
Segment earnings (loss)	1,914	3,321	8,292	(821)	(1,762)	10,944	—	10,944
Finance costs								(9,321)
Foreign exchange loss								(373)
Adjustments related to REIT units								777
Income before tax								2,027
Income tax recovery								126
Net income for the period								2,153

## 12. SUPPLEMENTAL BALANCE SHEET INFORMATION

Given the significant impact the consolidation of the REIT has on the consolidated statement of financial position, the assets and liabilities of the REIT have been presented separately from the rest of consolidated entity. This information is presented as supplementary information to assist readers in understanding the financial position of Melcor without the impact of consolidating the REIT.

The assets and liabilities of Melcor include Melcor and its wholly-owned subsidiaries, excluding the REIT, and its proportionate share in the assets and liabilities of its joint arrangements. Melcor's investment in REIT is presented at cost as shown in the tables below.

The assets and liabilities of the REIT are presented to conform to Melcor's financial statements presentation. Intercompany eliminations are balances between Melcor and the REIT that are eliminated on consolidation.

(\$000s)	Melcor	REIT	Intercompany Eliminations	March 31, 2024
<b>ASSETS</b>				
Cash and cash equivalents	27,053	3,861	—	30,914
Restricted cash	1,765	—	—	1,765
Accounts receivable	7,623	2,310	(1,485)	8,448
Income taxes recoverable	4,550	—	—	4,550
Agreements receivable	126,147	—	—	126,147
Land inventory (note 4)	727,096	—	—	727,096
Investment properties (note 5 and 14)	464,421	614,038	(5,977)	1,072,482
Property and equipment	11,716	—	242	11,958
Other assets	24,684	28,352	3,891	56,927
Assets held for sale	—	41,577	—	41,577
Derivative financial instrument	1,990	3,180	—	5,170
Melcor's investment in REIT	113,569	—	(113,569)	—
	1,510,614	693,318	(116,898)	2,087,034
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	23,919	16,838	(1,488)	39,269
Income taxes payable	—	—	—	—
Provision for land development costs	46,488	—	—	46,488
General debt (note 7)	276,868	394,210	—	671,078
Deferred income tax liability	65,186	—	—	65,186
Class B LP units	—	51,923	(51,923)	—
Class C LP units	—	21,226	(21,226)	—
REIT units (note 13 and 14)	—	—	41,741	41,741
	412,461	484,197	(32,896)	863,762

## 12. SUPPLEMENTAL BALANCE SHEET INFORMATION (continued)

(\$000s)	Melcor	REIT	Intercompany Eliminations	December 31, 2023
<b>ASSETS</b>				
Cash and cash equivalents	31,401	3,289	—	34,690
Restricted cash	1,719	—	—	1,719
Accounts receivable	10,283	2,133	(1,785)	10,631
Income taxes recoverable	2,998	—	—	2,998
Agreements receivable	126,070	—	—	126,070
Land inventory (note 4)	728,002	—	—	728,002
Investment properties (note 5 and 14)	461,395	629,993	(6,482)	1,084,906
Property and equipment	11,434	—	245	11,679
Other assets	25,330	29,039	4,397	58,766
Asset held for sale (note 6 and 14)	—	33,774	—	33,774
Derivative financial instrument	1,468	2,770	—	4,238
Melcor's investment in REIT	128,970	—	(128,970)	—
	1,529,070	700,998	(132,595)	2,097,473
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	33,793	16,252	(1,788)	48,257
Income taxes payable	1,246	—	—	1,246
Provision for land development costs	50,130	—	—	50,130
General debt (note 7)	273,265	396,909	—	670,174
Deferred income tax liability	64,291	—	—	64,291
Class B LP units	—	66,919	(66,919)	—
Class C LP units	—	21,630	(21,630)	—
REIT units (note 13 and 14)	—	—	53,797	53,797
	422,725	501,710	(36,540)	887,895

## 13. NON-CONTROLLING INTEREST IN MELCOR REIT

In accordance with our policy, we account for the remaining 44.6% publicly held interest in the REIT as a financial liability measured at fair value through profit or loss ("FVTPL"). As at March 31, 2024 the REIT units had a fair value of \$41,741 (December 31, 2023 - \$53,797).

We recorded adjustments related to REIT units for the three months ended March 31, 2024 of \$11,537 (March 31, 2023 - \$777).

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

	For the three months ended	
	March 31, 2024	March 31, 2023
Fair value adjustment on REIT units (note 14)	12,056	2,333
Distributions to REIT unitholders	(519)	(1,556)
<b>Adjustments related to REIT units</b>	<b>11,537</b>	<b>777</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	March 31, 2024	December 31, 2023
Assets	693,318	700,998
Liabilities (excluding Class B LP units)	432,274	434,791
<b>Net assets</b>	<b>261,044</b>	266,207
Cost of NCI	103,934	103,934
<b>Fair value of NCI</b>	<b>41,741</b>	53,797

	For the three months ended	
	March 31, 2024	March 31, 2023
Rental revenue	18,905	18,990
Net income and comprehensive income	10,352	3,656
Cash flows from operating activities	4,848	1,882
Cash flows (used in) from investing activities	(492)	18,834
Cash flows used in financing activities, before distributions to REIT unitholders	(3,265)	(19,151)
Cash flows used in financing activities - cash distributions to REIT unitholders	(519)	(1,556)
<b>Net increase in cash and cash equivalents</b>	<b>572</b>	9

#### 14. FAIR VALUE MEASUREMENT

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

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

- the carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, agreements receivable and accounts payable and accrued liabilities approximate their fair values based on the short term maturities of these financial instruments.
- fair values of general debt and interest rate swaps are estimated by discounting the future cash flows associated with the debt at market interest rates (Level 3).
- fair value of 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 and assets held for sale at fair value, which is determined based on the accepted valuation methods of direct income capitalization or discounted future cash flows (Level 3).

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

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

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

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

	March 31, 2024					December 31, 2023	
	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	1,072,482	—	1,072,482	1,072,482	1,084,906	1,084,906
Assets held for sale	Level 3	41,577	—	41,577	41,577	33,774	33,774
<b>Financial liabilities</b>							
General debt, excluding convertible debentures and derivative financial liability	Level 3	—	625,310	625,310	575,881	623,893	571,015
Convertible debentures	Level 2	—	45,244	45,244	43,525	44,997	44,356
<b>Derivative financial liabilities</b>							
Interest rate swaps	Level 3	348	—	348	348	1,130	1,130
Conversion features on convertible debentures	Level 3	176	—	176	176	154	154
REIT units	Level 1	41,741	—	41,741	41,741	53,797	53,797
<b>Derivative financial assets</b>							
Interest rate swaps	Level 3	5,170	—	5,170	5,170	4,238	4,238

### 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 three months ended March 31, 2024, 18 legal phases included in investment properties (of 93 legal phases) with a fair value of \$172,850 were valued by external valuation professionals

(year ended December 31, 2023 - 36 legal phases included in investment properties (of 93 legal phases) with a fair value of \$389,088). Valuations performed during the period resulted in net fair value losses of \$8,833 (December 31, 2023 - net fair value losses of \$24,456).

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

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

Weighted average annual stabilized net operating income for investment properties as at March 31, 2024 is \$1,466 (December 31, 2023 - \$1,498) 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>March 31, 2024</b>						
Capitalization rate	5.50%	10.50%	7.00%	6.00%	6.25%	6.11%
Terminal capitalization rate	5.75%	9.25%	7.13%	6.25%	6.50%	6.36%
Discount rate	6.75%	10.25%	8.00%	7.25%	7.25%	7.27%
	Investment Properties			Properties under Development		
December 31, 2023	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	5.00%	10.50%	7.00%	6.00%	6.25%	6.14%
Terminal capitalization rate	5.75%	9.25%	7.14%	6.25%	6.50%	6.39%
Discount rate	6.75%	10.25%	8.02%	7.25%	6.50%	7.27%

An increase in capitalization rates by 50 basis points would decrease the fair value and carrying amount of investment properties by \$64,000 (December 31, 2023 - \$64,000). A decrease in capitalization rates by 50 basis points would increase the fair value and carrying amount of investment properties by \$72,500 (December 31, 2023 - \$73,800).

#### General debt, excluding derivative financial liabilities

The fair value of revolving credit facilities approximates the carrying value excluding unamortized financing costs. The facilities bear interest, at our option, at a rate per annum equal to either the bank's prime lending rate plus 0.75% to 1.25% or at the bank's then prevailing banker's acceptance rate plus a stamping fee of 2.25% to 3.00%.

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

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

#### Derivative financial assets and liabilities

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



The fair value of the interest rate swaps are calculated as the net present value of the future cash flows expected to arise on the variable and fixed portion, determined using applicable yield curves at the measurement date. As at March 31, 2024, the fair value of interest rate swap contracts was \$5,170 asset and \$348 liability (December 31, 2023 - \$4,238 asset and \$1,130 liability).

The significant assumptions used in the fair value measurement of the conversion features on the REIT convertible debentures are volatility and credit spread. As at March 31, 2024 the fair value of the conversion features on our convertible debentures was \$176 liability (December 31, 2023 - \$154).

#### **REIT units**

REIT units are remeasured to fair value on a recurring basis and categorized as level 1 in the fair value hierarchy. The units are fair valued based on the trading price of the REIT units at the period end date. At March 31, 2024 the fair value of the REIT units was \$41,741 (December 31, 2023 - \$53,797), resulting in a fair value gain during the three months ended of \$12,056 (March 31, 2023 - gain of \$2,333) in the statement of income and comprehensive income for the period ended ended March 31, 2024 (note 13).

## **15. RISK MANAGEMENT**

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

### **a. Credit Risk**

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

Accounts receivables 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 \$269 (December 31, 2023 - \$481).

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

### **b. Liquidity Risk**

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

### **c. Market Risk**

We are subject to interest rate cash flow risk as our operating credit facilities and certain of our general debt bear interest at rates that vary in accordance with prime borrowing rates in Canada. For each 1% change in the rate of interest on loans subject to floating rates, the change in annual interest expense is approximately \$2,476 (December 31, 2023 - \$2,498). We are not subject to other significant market risks pertaining to our financial instruments.

## 16. EVENTS AFTER THE REPORTING PERIOD

### *Dividends declared*

On May 14, 2024 our board of directors declared a dividend of \$0.11 per share payable on June 28, 2024 to shareholders of record on June 14, 2024.

### *Asset Disposition*

On April 16, 2024 we entered into an unconditional agreement to sell one investment property, classified as asset held for sale at quarter end, for gross proceeds of \$7,800 (\$7,480 net of transaction costs). This sale closed on May 10, 2024. Net cash from the sale of this asset will be used to reduce debt in the REIT.