



Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2024

(Unaudited, in thousands of Canadian dollars)

Condensed Interim Consolidated Statement of Income

Unaudited (\$000s)	For the three months ended		For the six months ended	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
Revenue (note 8)	69,707	65,247	119,455	101,324
Cost of sales	(34,616)	(31,379)	(60,756)	(49,221)
Gross profit	35,091	33,868	58,699	52,103
General and administrative expense	(6,714)	(5,707)	(12,565)	(11,213)
Fair value adjustment on investment properties (note 5 and 14)	862	(4,780)	(7,971)	(7,264)
Adjustments related to REIT units (note 13 and 14)	5,833	7,001	17,370	7,778
Gain on sale of assets	6	7	53	7
Operating earnings	35,078	30,389	55,586	41,411
Interest income	714	552	1,256	1,251
Foreign exchange gain (loss)	16	(26)	51	(399)
Finance costs (note 9)	(7,882)	(5,003)	(14,099)	(14,324)
Net finance costs	(7,152)	(4,477)	(12,792)	(13,472)
Income before income taxes	27,926	25,912	42,794	27,939
Income tax expense	(4,586)	(4,279)	(6,666)	(4,153)
Net income for the period	23,340	21,633	36,128	23,786
Income per share:				
Basic income per share	0.76	0.69	1.18	0.76
Diluted income per share	0.76	0.69	1.18	0.76

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 six months ended	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
Net income for the period	23,340	21,633	36,128	23,786
Other comprehensive income				
Items that may be reclassified subsequently to net income:				
Currency translation differences	1,641	(4,212)	6,604	(4,040)
Comprehensive income	24,981	17,421	42,732	19,746

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Financial Position

Unaudited (\$000s)	June 30, 2024	December 31, 2023
ASSETS		
Cash and cash equivalents	39,395	34,690
Restricted cash	1,779	1,719
Accounts receivable	9,750	10,631
Income taxes recoverable	4,049	2,998
Agreements receivable	117,729	126,070
Land inventory (note 4)	726,000	728,002
Assets held for sale (note 6 and 14)	85,200	33,774
Investment properties (note 5 and 14)	1,026,143	1,084,906
Property and equipment	11,696	11,679
Other assets	60,541	58,766
Derivative financial assets (note 14)	4,560	4,238
	2,086,842	2,097,473
LIABILITIES		
Accounts payable and accrued liabilities	38,219	48,257
Income taxes payable	—	1,246
Provision for land development costs	42,040	50,130
General debt (note 7)	659,842	670,174
Deferred income tax liabilities	66,817	64,291
REIT units (note 13 and 14)	35,908	53,797
	842,826	887,895
SHAREHOLDERS' EQUITY		
Share capital (note 10)	69,093	69,493
Contributed surplus	5,617	5,036
Accumulated other comprehensive income (AOCI)	31,264	24,660
Retained earnings	1,138,042	1,110,389
	1,244,016	1,209,578
	2,086,842	2,097,473

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	
Balance at January 1, 2024	69,493	5,036	24,660	1,110,389	1,209,578
Net income for the period	—	—	—	36,128	36,128
Cumulative translation adjustment	—	—	6,604	—	6,604
Transactions with equity holders					
Dividends	—	—	—	(6,718)	(6,718)
Share repurchase (note 10)	(400)	—	—	(1,723)	(2,123)
Tax on share repurchase	—	—	—	(34)	(34)
Employee share options					
Value of services recognized	—	581	—	—	581
Balance at June 30, 2024	69,093	5,617	31,264	1,138,042	1,244,016

Unaudited (\$000's)	Equity attributable to Melcor's shareholders				Total equity
	Share capital	Contributed surplus	AOCI	Retained earnings	
Balance at January 1, 2023	70,218	4,810	29,598	1,073,710	1,178,336
Net income for the period	—	—	—	23,786	23,786
Cumulative translation adjustment	—	—	(4,040)	—	(4,040)
Transactions with equity holders					
Dividends	—	—	—	(9,950)	(9,950)
Share repurchase	(715)	—	—	(2,953)	(3,668)
Employee share options					
Value of services recognized	—	478	—	—	478
Balance at June 30, 2023	69,503	5,288	25,558	1,084,593	1,184,942

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Cash Flows

Unaudited (\$000's)	For the three months		For the six months ended	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
CASH FLOWS FROM (USED IN)				
OPERATING ACTIVITIES				
Net income for the period	23,340	21,633	36,128	23,786
Non cash items:				
Amortization of tenant incentives	42	1,949	4,180	4,269
Depreciation of property and equipment	423	426	565	571
Stock based compensation expense	285	248	581	478
Non-cash finance (recoveries) costs (note 9)	1,100	(2,363)	(127)	415
Straight-line rent adjustment	21	(104)	(13)	(476)
Fair value adjustment on investment properties (note 5 and 14)	(862)	4,780	7,971	7,264
Fair value adjustment on REIT units (note 13 and 14)	(5,833)	(8,556)	(17,889)	(10,889)
Gain on sale of assets	(6)	(7)	(53)	(7)
Deferred income taxes	1,626	(678)	2,507	(1,410)
	20,136	17,328	33,850	24,001
Agreements receivable	8,418	3,872	8,341	15,071
Development activities	(2,281)	(9,647)	(1,766)	(14,142)
Purchase of land inventory (note 4)	—	(2,400)	—	(4,800)
Payment of tenant lease incentives and direct leasing costs	(714)	(662)	(3,944)	(5,657)
Operating assets and liabilities	(184)	2,443	(9,245)	(8,611)
	25,375	10,934	27,236	5,862
INVESTING ACTIVITIES				
Additions to investment properties (note 5)	(4,149)	(7,640)	(6,224)	(11,346)
Net proceeds from disposal of investment properties (note 5)	1,779	5,168	2,725	6,397
Net proceeds from disposal of asset held for sale (note 6)	7,480	—	7,480	18,025
Change in restricted cash (note 6)	—	—	—	1,000
Purchase of short-term investments	(4,888)	—	(4,888)	—
Purchase of property and equipment	(171)	(172)	(658)	(258)
Proceeds on disposal of property and equipment	6	8	129	8
	57	(2,636)	(1,436)	13,826
FINANCING ACTIVITIES				
Revolving credit facilities	(11,547)	24,002	(7,465)	1,768
Proceeds from general debt	11,000	18,183	11,431	19,213
Repayment of general debt	(11,275)	(47,100)	(15,702)	(61,273)
Dividends paid	(3,355)	(4,950)	(6,718)	(9,950)
Common shares repurchased (note 10)	(1,133)	(3,668)	(2,123)	(3,668)
	(16,310)	(13,533)	(20,577)	(53,910)
FOREIGN EXCHANGE LOSS ON CASH HELD IN A FOREIGN CURRENCY	(641)	(105)	(518)	(130)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	8,481	(5,340)	4,705	(34,352)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	30,914	51,453	34,690	80,465
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	39,395	46,113	39,395	46,113
Total income taxes paid	2,438	2,984	6,372	6,029
Total interest paid	8,030	8,830	16,550	17,289

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 June 30, 2024 Melton Holdings Ltd. holds approximately 51.5% of the outstanding shares and pursuant to IAS 24, Related party disclosures, is the ultimate controlling shareholder of Melcor.

As at August 6, 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 August 6, 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 except as described below.

Financial Instruments

Short-term investments included in other assets are initially measured at fair value and subsequently measured at amortized cost as the short-term investments are held for collection of contractual cash flows that represent solely payments of principal and interest.

4. LAND INVENTORY

	June 30, 2024	December 31, 2023
Raw land held	379,994	377,946
Land under development	227,264	201,879
Developed land	118,742	148,177
	726,000	728,002

Land is recorded at the lower of cost and net realizable value. During the six month period ended June 30, 2024 no land was purchased. During the six month period ended June 30, 2023, we purchased 40.0 acres of land in Leduc, Alberta at a cost of \$2,400 for cash and another 80.0 acres of land in Acheson, Alberta at a cost of \$2,400 for cash.

5. INVESTMENT PROPERTIES

Investment properties consists of the following:

	June 30, 2024	December 31, 2023
Investment properties	947,378	1,001,585
Properties under development	78,765	83,321
Total	1,026,143	1,084,906

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

	Investment Properties	Properties under Development	Total Investment Properties	Investment Properties held for sale (note 6)	Total
Balance - beginning of period	1,001,585	83,321	1,084,906	32,143	1,117,049
Additions					
Direct leasing costs	597	136	733	—	733
Property improvements	1,085	—	1,085	—	1,085
Development costs	—	5,119	5,119	—	5,119
Capitalized borrowing costs	—	20	20	—	20
Disposals	(2,725)	—	(2,725)	(7,781)	(10,506)
Transfers	10,700	(10,700)	—	—	—
Fair value adjustment on investment properties	(8,465)	869	(7,596)	(375)	(7,971)
Investment property classified as held for sale (note 6)	(58,916)	—	(58,916)	58,916	—
Other adjustments	176	—	176	55	231
Foreign currency translation (included in OCI)	3,341	—	3,341	—	3,341
Balance - end of period	947,378	78,765	1,026,143	82,958	1,109,101

Year ended
December 31, 2023

	Investment Properties	Properties under Development	Total Investment Properties	Investment Properties held for sale (note 6)	Total
Balance - beginning of year	1,059,490	65,293	1,124,783	19,089	1,143,872
Additions					
Transfer from land inventory	—	3,104	3,104	—	3,104
Direct leasing costs	1,481	508	1,989	—	1,989
Property improvements	5,967	—	5,967	—	5,967
Development costs	—	14,904	14,904	—	14,904
Capitalized borrowing costs	—	691	691	—	691
Disposals	(7,822)	—	(7,822)	(19,089)	(26,911)
Transfers	9,481	(9,481)	—	—	—
Fair value adjustment on investment properties	(31,433)	8,302	(23,131)	(1,325)	(24,456)
Investment property classified as held for sale (note 6)	(33,468)	—	(33,468)	33,468	—
Other adjustments	287	—	287	—	287
Foreign currency translation (included in OCI)	(2,398)	—	(2,398)	—	(2,398)
Balance - end of year	1,001,585	83,321	1,084,906	32,143	1,117,049

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.

During the six-month period, we reclassified \$58,916 from investment properties to assets held for sale (note 6).

Disposals in the six month period ended June 30, 2024:

- We disposed of six residential units in Arizona for net sale price of \$2,725 (US\$1,996) 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 June 30, 2024, assets held for sale includes four REIT retail properties with a fair value of \$85,200 (including investment property of \$82,958, tenant incentives of \$1,530 and straight-line rent of \$712). As at June 30, 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 April 16, 2024 we disposed of an investment property classified as assets held for sale, for net proceeds of \$7,480, resulting from a purchase price of \$7,800 less transaction costs of \$320. The price was settled in cash, excluding working capital adjustments.

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

	June 30, 2024	December 31, 2023
Melcor - revolving credit facilities	71,482	71,976
REIT - revolving credit facility	30,889	37,860
Project specific financing	8,155	7,724
Debt on investment properties and golf course assets	503,651	507,463
REIT - convertible debentures	45,665	45,151
General debt	659,842	670,174

On May 27, 2024, the REIT entered into an amended and restated credit agreement with our lenders. Under the terms of our revolving credit facility agreement the REIT maintains an available credit limit based on the lesser of the present value of discounted cash flows or 75% of the appraised value of specific investment properties to a maximum of \$50,000 for general corporate purposes and acquisitions, including a \$5,000 swing line sub-facility. Depending on the form under which the credit facility is accessed, rates of interest will vary between prime plus 1.25% or CORRA plus 2.25%. The agreement also provides the REIT with \$5,000 in available letters of credit which bear interest at 2.25%. Interest payments are due and payable based upon the form of the facility drawn upon, and principal is due and payable upon maturity. The agreement also bears a standby fee of 0.45% for the unused portion of the revolving facility. The lenders hold demand debentures, a first priority general security and a general assignment of leases and rents over specific investment properties as security for the facility. The facility matures on the earlier of June 1, 2026 or October 31, 2024 if the convertible debentures have not been extended, or redeemed or if the REIT has not secured funds to satisfy the convertible debentures by its maturity date.

Interest rate reform and replacement of benchmark interest rates such as Canadian dollar overnight rate ('CDOR') and other inter-bank offered rates ('IBORs') has become a priority for global regulators. Our credit facility agreements and debt on investment property previously referenced CDOR/Banker's Acceptance, and as at June 30, 2024, these loans have transitioned to Canadian overnight repo rate average ('CORRA').

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

	Six months ended June 30, 2024	Year ended December 31, 2023
Balance - beginning of period	7,724	22,597
Cash movements		
Loan repayments	—	(16,826)
New project financing	431	1,953
Balance - end of period	8,155	7,724

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

	Six months ended June 30, 2024	Year ended December 31, 2023
Balance - beginning of period	507,463	539,110
Cash movements		
Principal repayments		
Scheduled amortization on debt	(8,687)	(18,012)
Mortgage repayments	(7,015)	(36,360)
New mortgages	11,000	22,490
Non-cash movements		
Deferred financing fees capitalized	(247)	(546)
Amortization of deferred financing fees	350	772
Change in derivative fair value swap	(761)	1,130
Foreign currency translation included in OCI	1,548	(1,121)
Balance - end of period	503,651	507,463

8. REVENUE

Total Revenues	For the three months ended		For the six months ended	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
Revenue from contracts	46,399	41,472	72,219	54,704
Revenue from other sources	23,308	23,775	47,236	46,620
	69,707	65,247	119,455	101,324

Timing of contract revenue recognition	For the three months ended		For the six months ended	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
At a point in time	40,123	36,571	60,458	44,416
Over time	6,276	4,901	11,761	10,288
	46,399	41,472	72,219	54,704

9. FINANCE COSTS

	For the three months ended		For the six months ended	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
Interest on Melcor - revolving credit facilities	1,487	1,774	2,898	3,189
Interest on REIT - revolving credit facility	694	559	1,452	1,101
Interest on REIT - convertible debentures	586	586	1,173	1,173
Interest on general debt	4,768	4,434	9,964	9,568
Financing costs and bank charges	232	862	588	1,186
(Gain) loss on settlement of interest rate swap	(1)	194	(51)	133
Non cash financing (recoveries) costs	1,100	(2,363)	(127)	415
	8,866	6,046	15,897	16,765
Less: capitalized interest	(984)	(1,043)	(1,798)	(2,441)
	7,882	5,003	14,099	14,324

Finance costs paid during the six months ended June 30, 2024 were \$16,550 (2023 - \$17,289). 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 June 30, 2024 are 30,479,398 (December 31, 2023 – 30,662,453 shares). During the six months ended June 30, 2024, there were no options exercised (Q2 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 expired on June 6, 2024.

On June 7, 2024 Melcor commenced a Normal Course Issuer (NCIB) which allows us to purchase up to 1,525,527 shares for cancellation, representing approximately 5% of the issued and outstanding shares up to a maximum daily limit of 1,552 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, 2025.

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 six months ended June 30, 2024, 183,055 shares were purchased for cancellation by Melcor pursuant to the NCIB at a cost of \$2,123 (December 31, 2023 - 712,160 shares purchased at a cost of \$8,098). Share capital was reduced by \$400 (December 31, 2023 - \$1,556) and retained earnings was reduced by \$1,723 (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		For the six months ended	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
United States	4,532	19,521	8,155	23,296
Canada	65,175	45,726	111,300	78,028
Total	69,707	65,247	119,455	101,324

Total Assets

As at	June 30, 2024	December 31, 2023
United States	250,419	240,210
Canada	1,836,423	1,857,263
Total	2,086,842	2,097,473

Divisional Analysis

Our divisions reported the following results:

For the three months ended June 30, 2024	Land	Properties	REIT	Golf	Corporate	Subtotal	Intersegment Elimination	Total
Revenue	37,234	11,299	17,858	5,296	—	71,687	(1,980)	69,707
Cost of sales	(20,913)	(4,654)	(7,451)	(2,183)	—	(35,201)	585	(34,616)
Gross profit	16,321	6,645	10,407	3,113	—	36,486	(1,395)	35,091
General and administrative expense	(1,991)	(1,366)	(1,014)	(1,094)	(2,049)	(7,514)	800	(6,714)
Fair value adjustment on investment properties	—	1,225	(958)	—	—	267	595	862
Gain on sale of assets	—	—	—	6	—	6	—	6
Interest income	650	31	12	3	18	714	—	714
Segment earnings (loss)	14,980	6,535	8,447	2,028	(2,031)	29,959	—	29,959
Finance costs								(7,882)
Foreign exchange gain								16
Adjustments related to REIT units								5,833
Income before tax								27,926
Income tax expense								(4,586)
Net income for the period								23,340

11. SEGMENTED INFORMATION (continued)

For the three months ended June 30, 2023	Land	Properties	REIT	Golf	Corporate	Subtotal	Intersegment Elimination	Total
Revenue	32,993	10,809	18,123	5,339	—	67,264	(2,017)	65,247
Cost of sales	(17,965)	(4,313)	(7,510)	(2,178)	—	(31,966)	587	(31,379)
Gross profit	15,028	6,496	10,613	3,161	—	35,298	(1,430)	33,868
General and administrative expense	(1,795)	(1,312)	(736)	(936)	(1,778)	(6,557)	850	(5,707)
Fair value adjustment on investment properties	—	2,470	(7,830)	—	—	(5,360)	580	(4,780)
Gain on sale of assets	—	—	—	7	—	7	—	7
Interest income	494	29	11	5	13	552	—	552
Segment earnings (loss)	13,727	7,683	2,058	2,237	(1,765)	23,940	—	23,940
Finance costs								(5,003)
Foreign exchange loss								(26)
Adjustments related to REIT units								7,001
Income before tax								25,912
Income tax expense								(4,279)
Net income for the period								21,633

For the six months ended June 30, 2024	Land	Properties	REIT	Golf	Corporate	Subtotal	Intersegment Elimination	Total
Revenue	58,300	22,995	36,763	5,439	—	123,497	(4,042)	119,455
Cost of sales	(33,629)	(9,775)	(15,785)	(2,748)	—	(61,937)	1,181	(60,756)
Gross profit	24,671	13,220	20,978	2,691	—	61,560	(2,861)	58,699
General and administrative expense	(3,922)	(2,614)	(2,034)	(1,449)	(4,014)	(14,033)	1,468	(12,565)
Fair value adjustment on investment properties	—	650	(10,014)	—	—	(9,364)	1,393	(7,971)
Gain on sale of assets	—	—	—	53	—	53	—	53
Interest income	1,118	62	26	6	44	1,256	—	1,256
Segment earnings (loss)	21,867	11,318	8,956	1,301	(3,970)	39,472	—	39,472
Finance costs								(14,099)
Foreign exchange gain								51
Adjustments related to REIT units								17,370
Income before tax								42,794
Income tax expense								(6,666)
Net income for the period								36,128

For the six months ended June 30, 2023	Land	Properties	REIT	Golf	Corporate	Subtotal	Intersegment Elimination	Total
Revenue	41,211	21,638	37,113	5,409	—	105,371	(4,047)	101,324
Cost of sales	(22,972)	(8,926)	(15,862)	(2,676)	—	(50,436)	1,215	(49,221)
Gross profit	18,239	12,712	21,251	2,733	—	54,935	(2,832)	52,103
General and administrative expense	(3,637)	(2,613)	(1,515)	(1,329)	(3,652)	(12,746)	1,533	(11,213)
Fair value adjustment on investment properties	—	853	(9,416)	—	—	(8,563)	1,299	(7,264)
Gain on sale of assets	—	—	—	7	—	7	—	7
Interest income	1,039	52	30	5	125	1,251	—	1,251
Segment earnings (loss)	15,641	11,004	10,350	1,416	(3,527)	34,884	—	34,884
Finance costs								(14,324)
Foreign exchange loss								(399)
Adjustments related to REIT units								7,778
Income before tax								27,939
Income tax expense								(4,153)
Net income for the period								23,786

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	June 30, 2024
ASSETS				
Cash and cash equivalents	36,101	3,294	—	39,395
Restricted cash	1,779	—	—	1,779
Accounts receivable	9,404	1,529	(1,183)	9,750
Income taxes recoverable	4,049	—	—	4,049
Agreements receivable	117,729	—	—	117,729
Land inventory (note 4)	726,000	—	—	726,000
Investment properties (note 5 and 14)	468,323	563,088	(5,268)	1,026,143
Property and equipment	11,456	—	240	11,696
Other assets	25,516	31,602	3,423	60,541
Assets held for sale	—	85,200	—	85,200
Derivative financial instrument	1,708	2,852	—	4,560
Melcor's investment in REIT	105,905	—	(105,905)	—
	1,507,970	687,565	(108,693)	2,086,842
LIABILITIES				
Accounts payable and accrued liabilities	26,140	13,264	(1,185)	38,219
Income taxes payable	—	—	—	—
Provision for land development costs	42,040	—	—	42,040
General debt (note 7)	270,661	389,181	—	659,842
Deferred income tax liability	66,817	—	—	66,817
Class B LP units	—	44,667	(44,667)	—
Class C LP units	—	20,818	(20,818)	—
REIT units (note 13 and 14)	—	—	35,908	35,908
	405,658	467,930	(30,762)	842,826

12. SUPPLEMENTAL BALANCE SHEET INFORMATION (continued)

(\$000s)	Melcor	REIT	Intercompany Eliminations	December 31, 2023
ASSETS				
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
LIABILITIES				
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 June 30, 2024 the REIT units had a fair value of \$35,908 (December 31, 2023 - \$53,797).

We recorded adjustments related to REIT units for the three and six months ended June 30, 2024 of \$5,833 and \$17,370 (June 30, 2023 - \$7,001 and \$7,778).

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

	For the three months ended		For the six months ended	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
Fair value adjustment on REIT units (note 14)	5,833	8,556	17,889	10,889
Distributions to REIT unitholders	—	(1,555)	(519)	(3,111)
Adjustments related to REIT units	5,833	7,001	17,370	7,778

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	June 30, 2024	December 31, 2023
Assets	687,565	700,998
Liabilities (excluding Class B LP units)	423,263	434,791
Net assets	264,302	266,207
Cost of NCI	103,934	103,934
Fair value of NCI	35,908	53,797

	For the three months ended		For the six months ended	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
Rental revenue	17,858	18,123	36,763	37,113
Net income and comprehensive income	10,514	7,198	20,866	10,854
Cash flows from operating activities	2,633	3,087	7,481	4,969
Cash flows (used in) from investing activities	2,214	(490)	1,722	18,344
Cash flows used in financing activities, before distributions to REIT unitholders	(5,414)	(1,175)	(8,679)	(20,326)
Cash flows used in financing activities - cash distributions to REIT unitholders	—	(1,555)	(519)	(3,111)
Net (decrease) increase in cash and cash equivalents	(567)	(133)	5	(124)

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, short-term investments, 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.

	June 30, 2024					December 31, 2023	
	Fair Value Hierarchy	Fair Value	Amortized Cost	Total Carrying Value	Total Fair Value	Total Carrying Value	Total Fair Value
Non-financial assets							
Investment properties	Level 3	1,026,143	—	1,026,143	1,026,143	1,084,906	1,084,906
Assets held for sale	Level 3	85,200	—	85,200	85,200	33,774	33,774
Financial liabilities							
General debt, excluding convertible debentures and derivative financial liability	Level 3	—	613,810	613,810	576,804	623,893	571,015
Convertible debentures	Level 2	—	45,491	45,491	43,874	44,997	44,356
Derivative financial liabilities							
Interest rate swaps	Level 3	367	—	367	367	1,130	1,130
Conversion features on convertible debentures	Level 3	174	—	174	174	154	154
REIT units	Level 1	35,908	—	35,908	35,908	53,797	53,797
Derivative financial assets							
Interest rate swaps	Level 3	4,560	—	4,560	4,560	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 six months ended June 30, 2024, 36 legal phases included in investment properties (of 92 legal phases) with a fair value of \$406,983 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 \$7,971 (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 June 30, 2024 is \$1,478 (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
June 30, 2024						
Capitalization rate	5.50%	10.25%	6.98%	6.00%	6.25%	6.08%
Terminal capitalization rate	5.75%	9.25%	7.12%	6.25%	6.50%	6.33%
Discount rate	6.75%	10.25%	8.02%	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 \$62,600 (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 \$72,300 (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 CORRA plus 2.25%.

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 June 30, 2024, the fair value of interest rate swap contracts was \$4,560 asset and \$367 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 June 30, 2024 the fair value of the conversion features on our convertible debentures was \$174 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 June 30, 2024 the fair value of the REIT units was \$35,908 (December 31, 2023 - \$53,797), resulting in a fair value gain during the six months ended of \$17,889 (June 30, 2023 - gain of \$10,889) in the statement of income and comprehensive income for the period ended ended June 30, 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 \$396 (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 \$2,361 (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 August 6, 2024 our board of directors declared a dividend of \$0.11 per share payable on September 27, 2024 to shareholders of record on September 13, 2024.