MELCOR

Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2024

(Unaudited, in thousands of Canadian dollars)

Condensed Interim Consolidated Statement of Income (Loss)

Unaudited ($000s)	For the three months ended September 30, 2024	September 30, 2023	For the nine months ended September 30, 2024	September 30, 2023
Revenue (note 8)	**59,508**	88,781	**178,963**	190,105
Cost of sales	**(30,902)**	(48,141)	**(91,658)**	(97,362)
Gross profit	**28,606**	40,640	**87,305**	92,743
General and administrative expense	**(7,900)**	(5,933)	**(20,465)**	(17,146)
Fair value adjustment on investment properties (note 5 and 14)	**(17,643)**	5,736	**(25,614)**	(1,528)
Adjustments related to REIT units (note 13 and 14)	**(27,093)**	259	**(9,723)**	8,037
Gain on sale of assets	**3**	41	**56**	48
Operating earnings (loss)	**(24,027)**	40,743	**31,559**	82,154
Interest income	**734**	478	**1,990**	1,729
Foreign exchange gain (loss)	**(9)**	21	**42**	(378)
Finance costs (note 9)	**(11,076)**	(5,657)	**(25,175)**	(19,981)
Net finance costs	**(10,351)**	(5,158)	**(23,143)**	(18,630)
Income (loss) before income taxes	**(34,378)**	35,585	**8,416**	63,524
Income tax expense	**(606)**	(6,702)	**(7,272)**	(10,855)
Net income (loss) for the period	**(34,984)**	28,883	**1,144**	52,669
Income (loss) per share:				
Basic income (loss) per share	**(1.15)**	0.94	**0.04**	1.70
Diluted income (loss) per share	**(1.15)**	0.94	**0.04**	1.69

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Comprehensive Income (Loss)

Unaudited ($000s)	For the three months ended September 30, 2024	September 30, 2023	For the nine months ended September 30, 2024	September 30, 2023
Net income (loss) for the period	**(34,984)**	28,883	**1,144**	52,669
Other comprehensive income				
Items that may be reclassified subsequently to net income (loss):				
Currency translation differences	**(2,727)**	3,812	**3,877**	(228)
Comprehensive income (loss)	**(37,711)**	32,695	**5,021**	52,441

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Financial Position

Unaudited ($000s)	September 30, 2024	December 31, 2023
ASSETS		
Cash and cash equivalents	39,513	34,690
Restricted cash	1,755	1,719
Accounts receivable	11,157	10,631
Income taxes recoverable	5,407	2,998
Agreements receivable	99,489	126,070
Land inventory (note 4)	744,807	728,002
Assets held for sale (note 6 and 14)	54,495	33,774
Investment properties (note 5 and 14)	1,042,757	1,084,906
Property and equipment	11,312	11,679
Other assets	59,412	58,766
Derivative financial assets (note 14)	2,510	4,238
	2,072,614	2,097,473
LIABILITIES		
Accounts payable and accrued liabilities	52,918	48,257
Income taxes payable	—	1,246
Provision for land development costs	45,901	50,130
General debt (note 7)	642,083	670,174
Deferred income tax liabilities	66,491	64,291
REIT units (note 13 and 14)	63,001	53,797
	870,394	887,895
SHAREHOLDERS' EQUITY		
Share capital (note 10)	68,905	69,493
Contributed surplus	5,950	5,036
Accumulated other comprehensive income (AOCI)	28,537	24,660
Retained earnings	1,098,828	1,110,389
	1,202,220	1,209,578
	2,072,614	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				
	Share capital	**Contributed surplus**	**AOCI**	**Retained earnings**	**Total equity**
Balance at January 1, 2024	**69,493**	**5,036**	**24,660**	**1,110,389**	**1,209,578**
Net income for the period	—	—	—	1,144	1,144
Cumulative translation adjustment	—	—	3,877	—	3,877
Transactions with equity holders					
Dividends	—	—	—	(10,063)	(10,063)
Share repurchase (note 10)	(588)	—	—	(2,590)	(3,178)
Tax on share repurchase (note 10)	—	—	—	(52)	(52)
Employee share options					
Value of services recognized	—	914	—	—	914
Balance at September 30, 2024	**68,905**	**5,950**	**28,537**	**1,098,828**	**1,202,220**

Unaudited ($000's)	Equity attributable to Melcor's shareholders				
	Share capital	Contributed surplus	AOCI	Retained earnings	Total equity
Balance at January 1, 2023	70,218	4,810	29,598	1,073,710	1,178,336
Net income for the period	—	—	—	52,669	52,669
Cumulative translation adjustment	—	—	(228)	—	(228)
Transactions with equity holders					
Dividends	—	—	—	(14,852)	(14,852)
Share repurchase	(1,371)	—	—	(5,759)	(7,130)
Employee share options					
Value of services recognized	—	771	—	—	771
Balance at September 30, 2023	68,847	5,581	29,370	1,105,768	1,209,566

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 September 30, 2024	September 30, 2023	For the nine months ended September 30, 2024	September 30, 2023
CASH FLOWS FROM (USED IN)				
OPERATING ACTIVITIES				
Net income (loss) for the period	**(34,984)**	28,883	**1,144**	52,669
Non cash items:				
Amortization of tenant incentives	**2,239**	2,105	**6,419**	6,374
Depreciation of property and equipment	**494**	491	**1,059**	1,062
Stock based compensation expense	**333**	293	**914**	771
Non-cash finance costs (recoveries) (note 9)	**4,010**	(1,924)	**3,883**	(1,509)
Straight-line rent adjustment	**(450)**	252	**(463)**	(224)
Fair value adjustment on investment properties (note 5 and 14)	**17,643**	(5,736)	**25,614**	1,528
Fair value adjustment on REIT units (note 13 and 14)	**27,093**	(1,815)	**9,204**	(12,704)
Gain on sale of assets	**(3)**	(41)	**(56)**	(48)
Deferred income taxes	**(318)**	160	**2,189**	(1,250)
	16,057	22,668	**49,907**	46,669
Agreements receivable	**18,240**	(1,938)	**26,581**	13,133
Development activities	**(16,763)**	1,246	**(18,529)**	(12,896)
Purchase of land inventory (note 4)	**—**	—	**—**	(4,800)
Payment of tenant lease incentives and direct leasing costs	**(2,148)**	(2,302)	**(6,092)**	(7,959)
Change in restricted cash	**(36)**	—	**(36)**	—
Operating assets and liabilities	**14,064**	15,444	**4,819**	6,833
	29,414	35,118	**56,650**	40,980
INVESTING ACTIVITIES				
Additions to investment properties (note 5)	**(8,004)**	(6,119)	**(14,228)**	(17,465)
Net proceeds from disposal of investment properties (note 5)	**2,057**	—	**4,782**	6,397
Net proceeds from disposal of asset held for sale (note 6)	**—**	—	**7,480**	18,025
Change in restricted cash (note 6)	**—**	—	**—**	1,000
Purchase of short-term investments	**—**	—	**(5,075)**	—
Redemption of short investments	**557**	—	**744**	—
Purchase of property and equipment	**(114)**	(388)	**(772)**	(646)
Proceeds on disposal of property and equipment	**—**	57	**129**	65
	(5,504)	(6,450)	**(6,940)**	7,376
FINANCING ACTIVITIES				
Revolving credit facilities	**(36,575)**	(310)	**(44,040)**	1,458
Proceeds from general debt	**23,786**	5,227	**35,217**	24,440
Repayment of general debt	**(6,083)**	(9,236)	**(21,785)**	(70,509)
Dividends paid	**(3,345)**	(4,902)	**(10,063)**	(14,852)
Common shares repurchased (note 10)	**(1,055)**	(3,462)	**(3,178)**	(7,130)
	(23,272)	(12,683)	**(43,849)**	(66,593)
FOREIGN EXCHANGE (LOSS) GAIN ON CASH HELD IN A FOREIGN CURRENCY	**(520)**	281	**(1,038)**	151
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	**118**	16,266	**4,823**	(18,086)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	**39,395**	46,113	**34,690**	80,465
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	**39,513**	62,379	**39,513**	62,379
Total income taxes paid	**2,766**	3,777	**9,138**	9,806
Total interest paid	**9,040**	8,711	**25,590**	26,000

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 September 30, 2024 Melton Holdings Ltd. holds approximately 51.6% of the outstanding shares and pursuant to IAS 24, Related party disclosures, is the ultimate controlling shareholder of Melcor.

As at November 7, 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".

On September 12, 2024, Melcor and the REIT announced that they entered into an arrangement agreement with Melcor REIT GP Inc. (the "Arrangement Agreement") pursuant to which, among other steps, Melcor will acquire its unowned equity interest (approximately 44.6%) in Melcor REIT Limited Partnership ("REIT LP") for $4.95 per unit in cash consideration. Melcor's unowned equity interest in REIT LP comprises all REIT LP's outstanding Class A LP Units (approximately 13.0 million units). The REIT will use the proceeds from the REIT LP sale to redeem and cancel all of the REIT's participating trust units. Completion of the transaction is subject to various closing conditions, including court approval and the approval of: (i) at least two-thirds of the votes cast by the holders of participating trust units and special voting units of the REIT, and (ii) the majority of the votes cast by holders of participating trust units and special voting units of the REIT, excluding the votes of Melcor and any other unitholders excluded for the purposes of "minority approval" under Multilateral Instrument 61-101 - Protection of Minority Security Holders in Special Transactions.

There are contingent fees payable on successful completion of the transaction estimated at $3,500.

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 November 7, 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.

(Unaudited – in $000s except per share, share and acre amounts)

4. LAND INVENTORY

	September 30, 2024	December 31, 2023
Raw land held	**372,779**	377,946
Land under development	**244,143**	201,879
Developed land	**127,885**	148,177
	744,807	728,002

Land is recorded at the lower of cost and net realizable value. During the nine month period ended September 30, 2024 no land was purchased. During the nine month period ended September 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:

	September 30, 2024	December 31, 2023
Investment properties	**961,077**	1,001,585
Properties under development	**81,680**	83,321
Total	**1,042,757**	1,084,906

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

					Nine months ended September 30, 2024
	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	868	276	**1,144**	—	**1,144**
Property improvements	2,211	—	**2,211**	—	**2,211**
Development costs	—	11,978	**11,978**	—	**11,978**
Capitalized borrowing costs	—	39	**39**	—	**39**
Disposals	(4,782)	—	**(4,782)**	(7,781)	**(12,563)**
Transfers	15,825	(15,825)	**—**	—	**—**
Fair value adjustment on investment properties	(26,105)	1,891	**(24,214)**	(1,400)	**(25,614)**
Investment properties transferred to assets held for sale (note 6)	(62,200)	—	**(62,200)**	62,200	**—**
Assets held for sale transferred to investment properties	31,605	—	**31,605**	(31,605)	**—**
Other adjustments	—	—	**—**	232	**232**
Foreign currency translation (included in OCI)	2,070	—	**2,070**	—	**2,070**
Balance - end of period	961,077	81,680	**1,042,757**	53,789	**1,096,546**

(Unaudited – in $000s except per share, share and acre amounts)

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 properties transferred to assets 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 nine month period, we reclassified $62,200 from investment properties to assets held for sale (note 6). During the third quarter, we ceased marketing three properties that were transferred to assets held for sale in 2023 and reclassified the properties with a value of $31,605 to investment properties and reclassified $1,279 in tenant incentives and $263 in straight-line rent adjustments to other assets.

Disposals in the nine month period ended September 30, 2024:

- We disposed of eleven residential units in Arizona for net sale price of $4,782 (US$3,499) 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 September 30, 2024, assets held for sale includes two properties with a fair value of $54,495 (including investment property of $53,789, tenant incentives of $275 and straight-line rent adjustments of $431). As at September 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 adjustments of $271).

During the third quarter, we ceased marketing three properties that were transferred to assets held for sale in 2023 and reclassified the properties with a value of $31,605 to investment properties and reclassified $1,279 in tenant incentives and $263 in straight-line rent adjustments to other assets.

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.

(Unaudited – in $000s except per share, share and acre amounts)

7. GENERAL DEBT

	September 30, 2024	December 31, 2023
Melcor - revolving credit facilities	36,836	71,976
REIT - revolving credit facility	28,960	37,860
Project specific financing	11,941	7,724
Debt on investment properties and golf course assets	518,426	507,463
REIT - convertible debentures	45,920	45,151
General debt	642,083	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. During the quarter, the agreement was amended to extend the maturity date to November 30, 2024.

On September 6, 2024, Melcor entered into an amended credit agreement with a syndicate of major chartered banks. Under the terms of our amended credit agreement, the loan limits that pertain solely to Melcor has increased by $50,000 to $170,000. The facility matures on July 31, 2026.

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 these loans have transitioned to Canadian overnight repo rate average ('CORRA') during the year.

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

	Nine months ended September 30, 2024	Year ended December 31, 2023
Balance - beginning of period	7,724	22,597
Cash movements		
Loan repayments	—	(16,826)
New project financing	4,217	1,953
Balance - end of period	11,941	7,724

(Unaudited – in $000s except per share, share and acre amounts)

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

	Nine months ended September 30, 2024	Year ended December 31, 2023
Balance - beginning of period	**507,463**	539,110
Cash movements		
Principal repayments		
Scheduled amortization on debt	**(13,167)**	(18,012)
Mortgage repayments	**(8,615)**	(36,360)
New mortgages	**31,000**	22,490
Non-cash movements		
Deferred financing fees capitalized	**(432)**	(546)
Amortization of deferred financing fees	**528**	772
Change in derivative fair value swap	**724**	1,130
Foreign currency translation included in OCI	**925**	(1,121)
Balance - end of period	**518,426**	507,463

8. REVENUE

Total Revenues	For the three months ended		For the nine months ended	
	September 30, 2024	September 30, 2023	**September 30, 2024**	September 30, 2023
Revenue from contracts	**36,811**	59,527	**109,030**	114,231
Revenue from other sources	**22,697**	29,254	**69,933**	75,874
	59,508	88,781	**178,963**	190,105

Timing of contract revenue recognition	For the three months ended		For the nine months ended	
	September 30, 2024	September 30, 2023	**September 30, 2024**	September 30, 2023
At a point in time	**31,776**	53,466	**92,234**	97,882
Over time	**5,035**	6,061	**16,796**	16,349
	36,811	59,527	**109,030**	114,231

(Unaudited – in $000s except per share, share and acre amounts)

9. FINANCE COSTS

	For the three months ended		For the nine months ended	
	September 30, 2024	September 30, 2023	**September 30, 2024**	September 30, 2023
Interest on Melcor - revolving credit facilities	**1,334**	2,094	**4,232**	5,283
Interest on REIT - revolving credit facility	**587**	749	**2,039**	1,850
Interest on REIT - convertible debentures	**587**	587	**1,760**	1,760
Interest on general debt	**5,485**	4,736	**15,449**	14,304
Financing costs and bank charges	**767**	370	**1,355**	1,556
Gain on settlement of interest rate swap	**—**	(147)	**(51)**	(14)
Non cash financing costs (recoveries)	**4,010**	(1,924)	**3,883**	(1,509)
	12,770	6,465	**28,667**	23,230
Less: capitalized interest	**(1,694)**	(808)	**(3,492)**	(3,249)
	11,076	5,657	**25,175**	19,981

Finance costs paid during the nine months ended September 30, 2024 were $25,589 (2023 - $26,000). 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 September 30, 2024 are 30,393,450 (December 31, 2023 – 30,662,453 shares). During the nine months ended September 30, 2024, there were no options exercised (Q3 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 nine months ended September 30, 2024, 269,003 shares were purchased for cancellation by Melcor pursuant to the NCIB at a cost of $3,178 (December 31, 2023 - 712,160 shares purchased at a cost of $8,098). Share capital was reduced by $588 (December 31, 2023 - $1,556) and retained earnings was reduced by $2,590 (December 31, 2023 - $6,542). Retained earnings was also reduced by $52 (December 31, 2023 - $nil) for the tax on net share buyback.

(Unaudited – in $000s except per share, share and acre amounts)

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 nine months ended**	
	September 30, 2024	September 30, 2023	**September 30, 2024**	September 30, 2023
United States	**3,453**	21,018	**11,608**	44,314
Canada	**56,055**	67,763	**167,355**	145,791
Total	**59,508**	88,781	**178,963**	190,105

Total Assets		
As at	**September 30, 2024**	December 31, 2023
United States	**245,746**	240,210
Canada	**1,826,868**	1,857,263
Total	**2,072,614**	2,097,473

Divisional Analysis

Our divisions reported the following results:

For the three months ended September 30, 2024	Land	Properties	REIT	Golf	Corporate	Subtotal	Intersegment Elimination	Total
Revenue	27,327	11,542	17,454	5,261	—	**61,584**	(2,076)	**59,508**
Cost of sales	(16,573)	(4,739)	(7,372)	(2,818)	—	**(31,502)**	600	**(30,902)**
Gross profit	10,754	6,803	10,082	2,443	—	**30,082**	(1,476)	**28,606**
General and administrative expense	(2,081)	(1,422)	(1,589)	(846)	(2,813)	**(8,751)**	851	**(7,900)**
Fair value adjustment on investment properties	—	(5,395)	(12,873)	—	—	**(18,268)**	625	**(17,643)**
Gain on sale of assets	—	—	—	3	—	**3**	—	**3**
Interest income	665	36	18	5	10	**734**	—	**734**
Segment earnings (loss)	9,338	22	(4,362)	1,605	(2,803)	**3,800**	—	**3,800**
Finance costs								**(11,076)**
Foreign exchange loss								**(9)**
Adjustments related to REIT units								**(27,093)**
Loss before tax								**(34,378)**
Income tax expense								**(606)**
Net loss for the period								**(34,984)**

(Unaudited – in $000s except per share, share and acre amounts)

11. SEGMENTED INFORMATION (continued)

For the three months ended September 30, 2023	Land	Properties	REIT	Golf	Corporate	Subtotal	Intersegment Elimination	Total
Revenue	64,028	10,033	18,285	4,948	—	**97,294**	(8,513)	**88,781**
Cost of sales	(37,096)	(4,606)	(7,371)	(2,746)	—	**(51,819)**	3,678	**(48,141)**
Gross profit	26,932	5,427	10,914	2,202	—	**45,475**	(4,835)	**40,640**
General and administrative expense	(2,004)	(1,167)	(779)	(837)	(1,970)	**(6,757)**	824	**(5,933)**
Fair value adjustment on investment properties	—	674	1,051	—	—	**1,725**	4,011	**5,736**
Gain on sale of assets	—	—	—	41	—	**41**	—	**41**
Interest income	408	38	16	—	16	**478**	—	**478**
Segment earnings (loss)	25,336	4,972	11,202	1,406	(1,954)	**40,962**	—	**40,962**
Finance costs								**(5,657)**
Foreign exchange gain								**21**
Adjustments related to REIT units								**259**
Income before tax								**35,585**
Income tax expense								**(6,702)**
Net income for the period								**28,883**

For the nine months ended September 30, 2024	Land	Properties	REIT	Golf	Corporate	Subtotal	Intersegment Elimination	Total
Revenue	85,627	34,537	54,217	10,700	—	**185,081**	(6,118)	**178,963**
Cost of sales	(50,202)	(14,514)	(23,157)	(5,566)	—	**(93,439)**	1,781	**(91,658)**
Gross profit	35,425	20,023	31,060	5,134	—	**91,642**	(4,337)	**87,305**
General and administrative expense	(6,003)	(4,036)	(3,623)	(2,295)	(6,827)	**(22,784)**	2,319	**(20,465)**
Fair value adjustment on investment properties	—	(4,745)	(22,887)	—	—	**(27,632)**	2,018	**(25,614)**
Gain on sale of assets	—	—	—	56	—	**56**	—	**56**
Interest income	1,783	98	44	11	54	**1,990**	—	**1,990**
Segment earnings (loss)	31,205	11,340	4,594	2,906	(6,773)	**43,272**	—	**43,272**
Finance costs								**(25,175)**
Foreign exchange gain								**42**
Adjustments related to REIT units								**(9,723)**
Income before tax								**8,416**
Income tax expense								**(7,272)**
Net income for the period								**1,144**

(Unaudited – in $000s except per share, share and acre amounts)

11. SEGMENTED INFORMATION (continued)

For the nine months ended September 30, 2023	Land	Properties	REIT	Golf	Corporate	Subtotal	Intersegment Elimination	Total
Revenue	105,239	31,671	55,398	10,357	—	**202,665**	(12,560)	**190,105**
Cost of sales	(60,068)	(13,532)	(23,233)	(5,422)	—	**(102,255)**	4,893	**(97,362)**
Gross profit	45,171	18,139	32,165	4,935	—	**100,410**	(7,667)	**92,743**
General and administrative expense	(5,641)	(3,780)	(2,294)	(2,166)	(5,622)	**(19,503)**	2,357	**(17,146)**
Fair value adjustment on investment properties	—	1,527	(8,365)	—	—	**(6,838)**	5,310	**(1,528)**
Gain on sale of assets	—	—	—	48	—	**48**	—	**48**
Interest income	1,447	90	46	5	141	**1,729**	—	**1,729**
Segment earnings (loss)	40,977	15,976	21,552	2,822	(5,481)	**75,846**	—	**75,846**
Finance costs								**(19,981)**
Foreign exchange loss								**(378)**
Adjustments related to REIT units								**8,037**
Income before tax								**63,524**
Income tax expense								**(10,855)**
Net income for the period								**52,669**

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.

12. SUPPLEMENTAL BALANCE SHEET INFORMATION (continued)

($000s)	Melcor	REIT	Intercompany Eliminations	September 30, 2024
ASSETS				
Cash and cash equivalents	35,543	3,970	—	39,513
Restricted cash	1,755	—	—	1,755
Accounts receivable	11,399	1,058	(1,300)	11,157
Income taxes recoverable	5,407	—	—	5,407
Agreements receivable	99,489	—	—	99,489
Land inventory (note 4)	744,807	—	—	744,807
Assets held for sale (note 6 and 14)	—	54,495	—	54,495
Investment properties (note 5 and 14)	466,837	580,724	(4,804)	1,042,757
Property and equipment	11,074	—	238	11,312
Other assets	25,165	31,289	2,958	59,412
Derivative financial instrument (note 14)	860	1,650	—	2,510
Melcor's investment in REIT	139,192	—	(139,192)	—
	1,541,528	673,186	(142,100)	2,072,614
LIABILITIES				
Accounts payable and accrued liabilities	38,332	15,837	(1,251)	52,918
Provision for land development costs	45,901		—	45,901
General debt (note 7)	258,343	383,740	—	642,083
Deferred income tax liability	66,491	—	—	66,491
Class B LP units	—	78,368	(78,368)	—
Class C LP units	—	20,404	(20,404)	—
REIT units (note 13 and 14)	—	—	63,001	63,001
	409,067	498,349	(37,022)	870,394

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
Asset held for sale (note 6 and 14)	—	33,774	—	33,774
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
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 September 30, 2024 the REIT units had a fair value of $63,001 (December 31, 2023 - $53,797).

We recorded adjustments related to REIT units for the three and nine months ended September 30, 2024 of $27,093 and $9,723 (September 30, 2023 - $259 and $8,037).

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

	For the three months ended		For the nine months ended	
	September 30, 2024	September 30, 2023	**September 30, 2024**	September 30, 2023
Fair value adjustment on REIT units (note 14)	**(27,093)**	1,815	**(9,204)**	12,704
Distributions to REIT unitholders	**—**	(1,556)	**(519)**	(4,667)
Adjustments related to REIT units	**(27,093)**	259	**(9,723)**	8,037

(Unaudited – in $000s except per share, share and acre amounts)

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, 2024	December 31, 2023
Assets	673,186	700,998
Liabilities (excluding Class B LP units)	419,981	434,791
Net assets	**253,205**	266,207
Cost of NCI	103,934	103,934
Fair value of NCI	**63,001**	53,797

	For the three months ended		For the nine months ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Rental revenue	17,454	18,285	54,217	55,398
Net income and comprehensive income	(44,798)	7,075	(23,932)	17,929
Cash flows from operating activities	7,744	3,827	15,225	8,796
Cash flows (used in) from investing activities	(538)	(1,905)	1,184	16,439
Cash flows used in financing activities, before distributions to REIT unitholders	(6,530)	(288)	(15,209)	(20,614)
Cash flows used in financing activities - cash distributions to REIT unitholders	—	(1,556)	(519)	(4,667)
Net increase (decrease) in cash and cash equivalents	**676**	78	**681**	(46)

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.

(Unaudited – in $000s except per share, share and acre amounts)

- 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, 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	1,042,757	—	1,042,757	1,042,757	1,084,906	1,084,906
Assets held for sale	Level 3	54,495	—	54,495	54,495	33,774	33,774
Financial liabilities							
General debt, excluding convertible debentures and derivative financial liability	Level 3	—	594,310	594,310	570,046	623,893	571,015
Convertible debentures	Level 2	—	45,745	45,745	45,990	44,997	44,356
Derivative financial liabilities							
Interest rate swaps	Level 3	1,854	—	1,854	1,854	1,130	1,130
Conversion features on convertible debentures	Level 3	174	—	174	174	154	154
REIT units	Level 1	63,001	—	63,001	63,001	53,797	53,797
Derivative financial assets							
Interest rate swaps	Level 3	2,510	—	2,510	2,510	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

(Unaudited – in $000s except per share, share and acre amounts)

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 valuators 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, 2024, 49 legal phases included in investment properties (of 92 legal phases) with a fair value of $594,843 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 nine-month period resulted in net fair value losses of $25,614 (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 September 30, 2024 is $1,467 (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**		
September 30, 2024	**Min**	**Max**	**Weighted Average**	**Min**	**Max**	**Weighted Average**
Capitalization rate	**5.00%**	**10.50%**	**6.94%**	**6.00%**	**6.25%**	**6.07%**
Terminal capitalization rate	**5.75%**	**9.50%**	**7.11%**	**6.25%**	**6.50%**	**6.32%**
Discount rate	**6.75%**	**10.50%**	**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 $62,800 (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 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 September 30, 2024, the fair value of interest rate swap contracts was $2,510 asset and $1,854 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 September 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 September 30, 2024 the fair value of the REIT units was $63,001 (December 31, 2023 - $53,797), resulting in a fair value loss during the nine months ended of $9,204 (September 30, 2023 - gain of $12,704) in the statement of income and comprehensive income for the period ended ended September 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 $4 (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.

As part of the Arrangement Agreement (note 1) with Melcor REIT, Melcor has committed to acquire its unowned equity interest in Melcor REIT for $4.95 per unit or $64,168 in cash consideration, subject to unitholder approval. Melcor has also committed to repay out in cash, all $46.0 million (plus any accrued and unpaid interest) of the REIT’s 5.10% convertible unsecured subordinated debentures having a maturity date of December 31, 2024. The transaction described is expected to be funded by available room on our credit facility.

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 $1,995 (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 November 7, 2024 our board of directors declared a dividend of $0.11 per share payable on December 31, 2024 to shareholders of record on December 13, 2024.

Asset Disposition

On October 1, 2024 the REIT disposed of an investment property classified as assets held for sale, for net proceeds of $4,344, resulting from a purchase price of $4,495 less transaction costs of $151. The price was settled in cash, excluding mortgage payout and working capital adjustments. Proceeds from the sale were used to repay the outstanding balance of $1,116 on the mortgage with the remaining cash being used to reduce our borrowings on our credit facility.

On October 10, 2024 we entered into a unconditional agreement to dispose of an investment property, for gross proceeds of $957 less transaction costs. This sale is expected to close on December 20, 2024.

On October 23, 2024 the REIT entered into a unconditional agreement to dispose of an investment property, for gross proceeds of $5,000 less transaction costs. This sale is expected to close on November 22, 2024.