MELCOR

Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2022

(Unaudited, in thousands of Canadian dollars)

Condensed Interim Consolidated Statement of Income (Loss)

Unaudited ($000s)	For the three months ended **March 31, 2022**	 March 31, 2021
Revenue (note 7)	**53,306**	43,270
Cost of sales	**(28,120)**	(20,672)
Gross profit	**25,186**	22,598
General and administrative expense	**(5,853)**	(4,892)
Fair value adjustment on investment properties (note 5 and 11)	**(2,522)**	976
Adjustments related to REIT units (note 10)	**(7,234)**	(23,011)
Gain on sale of assets	**—**	4
Operating earnings (loss)	**9,577**	(4,325)
Interest income	**145**	156
Foreign exchange loss	**(109)**	—
Finance costs	**(4,494)**	(7,588)
Net finance costs	**(4,458)**	(7,432)
Income (loss) before income taxes	**5,119**	(11,757)
Income tax expense	**(2,649)**	(2,276)
Net income (loss) for the period	**2,470**	(14,033)
Income (loss) per share:		
Basic income (loss) per share	**0.08**	(0.42)
Diluted income (loss) per share	**0.07**	(0.42)

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Comprehensive Loss

Unaudited ($000s)	For the three months ended **March 31, 2022**	 March 31, 2021
Net income (loss) for the period	**2,470**	(14,033)
Other comprehensive income		
Items that may be reclassified subsequently to net income:		
Currency translation differences	**(2,481)**	(2,228)
Comprehensive loss	**(11)**	(16,261)

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Financial Position

Unaudited ($000s)	**March 31, 2022**	December 31, 2021
ASSETS		
Cash and cash equivalents	**66,372**	59,920
Restricted cash	**6,129**	4,824
Accounts receivable	**8,579**	10,097
Income taxes recoverable	**3,171**	323
Agreements receivable	**125,426**	127,739
Land inventory (note 4)	**720,640**	725,806
Investment properties (note 5 and 11)	**1,116,507**	1,118,805
Property and equipment	**12,846**	12,887
Other assets	**55,218**	53,526
	2,114,888	2,113,927
LIABILITIES		
Accounts payable and accrued liabilities	**50,503**	50,476
Income taxes payable	**3,823**	5,936
Provision for land development costs	**71,794**	79,517
General debt (note 6)	**728,651**	716,913
Deferred income tax liabilities	**56,136**	56,341
REIT units (note 10 and 11)	**93,928**	88,275
	1,004,835	997,458
SHAREHOLDERS' EQUITY		
Share capital (note 8)	**73,126**	73,304
Contributed surplus	**4,733**	4,727
Accumulated other comprehensive income (AOCI)	**15,377**	17,858
Retained earnings	**1,016,817**	1,020,580
	1,110,053	1,116,469
	2,114,888	2,113,927

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, 2022	**73,304**	**4,727**	**17,858**	**1,020,580**	**1,116,469**
Net income for the period	—	—	—	2,470	2,470
Cumulative translation adjustment	—	—	(2,481)	—	(2,481)
Transactions with equity holders					
Dividends	—	—	—	(4,596)	(4,596)
Share repurchase (note 8)	(289)	—	—	(1,637)	(1,926)
Employee share options					
Value of services recognized	—	117	—	—	117
Share issuance	111	(111)	—	—	—
Balance at March 31, 2022	**73,126**	**4,733**	**15,377**	**1,016,817**	**1,110,053**

Unaudited ($000's)	Equity attributable to Melcor's shareholders				
	Share capital	Contributed surplus	AOCI	Retained earnings	Total equity
Balance at January 1, 2021	72,270	4,948	18,603	981,608	1,077,429
Net loss for the period	—	—	—	(14,033)	(14,033)
Cumulative translation adjustment	—	—	(2,228)	—	(2,228)
Transactions with equity holders					
Dividends	—	—	—	(3,309)	(3,309)
Share repurchase	(11)	—	—	(45)	(56)
Employee share options					
Value of services recognized	—	266	—	—	266
Balance at March 31, 2021	72,259	5,214	16,375	964,221	1,058,069

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Cash Flows

	For the three months ended	
Unaudited ($000's)	**March 31, 2022**	March 31, 2021
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net income (loss) for the period	**2,470**	(14,033)
Non cash items:		
Amortization of tenant incentives	**1,407**	2,011
Depreciation of property and equipment	**156**	178
Stock based compensation expense	**117**	266
Non-cash finance costs	**(1,472)**	1,274
Straight-line rent adjustment	**(374)**	22
Fair value adjustment on investment properties (note 5 and 11)	**2,522**	(976)
Fair value adjustment on REIT units (note 10 and 11)	**5,678**	21,642
Gain on sale of assets	**—**	(4)
Deferred income taxes	**(181)**	(184)
	10,323	10,196
Agreements receivable	**2,313**	9,834
Development activities	**(4,104)**	816
Payment of tenant lease incentives and direct leasing costs	**(1,721)**	(2,235)
Change in restricted cash	**(1,305)**	1,393
Operating assets and liabilities	**(4,518)**	1,215
	988	21,219
INVESTING ACTIVITIES		
Additions to investment properties (note 5)	**(1,561)**	(4,277)
Purchase of property and equipment	**(114)**	(19)
Proceeds on disposal of property and equipment	**—**	4
	(1,675)	(4,292)
FINANCING ACTIVITIES		
Revolving credit facilities	**5,213**	3,542
Proceeds from general debt	**31,903**	28,769
Repayment of general debt	**(22,823)**	(33,479)
Repurchase of REIT units (note 10)	**(25)**	(228)
Dividends paid	**(4,596)**	(3,309)
Common shares repurchased (note 8)	**(1,926)**	(56)
	7,746	(4,761)
FOREIGN EXCHANGE LOSS ON CASH HELD IN A FOREIGN CURRENCY	**(607)**	(55)
INCREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	**6,452**	12,111
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	**59,920**	29,201
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	**66,372**	41,312
Total income taxes paid	**3,361**	2,750
Total interest paid	**6,247**	7,191

See accompanying notes to these condensed interim consolidated financial statements.

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

1. DESCRIPTION OF THE BUSINESS

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

Melcor Developments Ltd. ("Melcor" or "we") is incorporated in Canada. The registered office is located at Suite 900, 10310 Jasper Avenue Edmonton, AB T5J 1Y8. We operate in Canada and the United States ("US"). Our shares are traded on the Toronto Stock Exchange under the symbol "MRD". As at March 31, 2022 Melton Holdings Ltd. holds approximately 47.4% of the outstanding shares and pursuant to IAS 24, Related party disclosures, is the ultimate controlling shareholder of Melcor.

As at May 9, 2022, Melcor through an affiliate, holds an approximate 55.4% effective interest in Melcor REIT ("REIT" or "the REIT") through ownership of all Class B LP Units of the Partnership and is the ultimate controlling party. Melcor continues to manage, administer and operate the REIT and its properties under an asset management agreement and property management agreement. Trust units of the REIT are traded on the Toronto Stock Exchange under the symbol "MR.UN".

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

2. BASIS OF PRESENTATION

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

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

These condensed interim consolidated financial statements were approved for issue by the Board of Directors on May 9, 2022.

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

SIGNIFICANT ACCOUNTING POLICIES AND NEW STANDARDS ADOPTED

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

NEW AND AMENDED STANDARDS ADOPTED

We adopted the following amendment on January 1, 2022.

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

4. LAND INVENTORY

	March 31, 2022	December 31, 2021
Raw land held	**388,306**	387,598
Land under development	**161,016**	153,671
Developed land	**171,318**	184,537
	720,640	725,806

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

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

March 31, 2022 management does not consider there to be a negative impact on the current carrying value of land, but will continue monitoring the net realizable value of land during these uncertain times.

5. INVESTMENT PROPERTIES

Investment properties consists of the following:

	March 31, 2022	December 31, 2021
Investment properties	**1,067,458**	1,071,456
Properties under development	**49,049**	47,349
Total	**1,116,507**	1,118,805

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

			Three months ended March 31, 2022
	Investment Properties	**Properties under Development**	**Total**
Balance - beginning of period	1,071,456	47,349	**1,118,805**
Additions			
Direct leasing costs	151	114	**265**
Property improvements	303	—	**303**
Development costs	—	1,241	**1,241**
Capitalized borrowing costs	—	17	**17**
Fair value adjustment on investment properties	(2,850)	328	**(2,522)**
Foreign currency translation (included in OCI)	(1,602)	—	**(1,602)**
Balance - end of period	**1,067,458**	**49,049**	**1,116,507**

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

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

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

6. GENERAL DEBT

	March 31, 2022	December 31, 2021
Melcor - revolving credit facilities	**92,263**	87,050
Project specific financing	**39,831**	40,758
Secured vendor take back debt on land inventory	**11,435**	11,794
Debt on investment properties and golf course assets	**512,663**	506,382
REIT - convertible debentures	**72,459**	70,929
General debt	**728,651**	716,913

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

	Three months ended March 31, 2022	Year ended December 31, 2021
Balance - beginning of period	**40,758**	66,248
Cash movements		
Loan repayments	**(11,737)**	(30,056)
New project financing	**10,930**	4,605
Non-cash movements		
Foreign currency translation included in OCI	**(120)**	(39)
Balance - end of period	**39,831**	40,758

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

	Three months ended March 31, 2022	Year ended December 31, 2021
Balance - beginning of period	**11,794**	28,616
Cash movements		
Principal repayments		
Scheduled amortization on debt	**(359)**	(16,822)
Balance - end of period	**11,435**	11,794

(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:

	Three months ended March 31, 2022	Year ended December 31, 2021
Balance - beginning of period	**506,382**	490,801
Cash movements		
Principal repayments		
Scheduled amortization on debt	**(4,087)**	(17,076)
Mortgage repayments	**(6,631)**	(92,390)
New mortgages	**20,973**	127,984
Non-cash movements		
Deferred financing fees capitalized	**(928)**	(1,315)
Amortization of deferred financing fees	**217**	836
Change in derivative fair value swap	**(2,156)**	(2,005)
Foreign currency translation included in OCI	**(1,107)**	(453)
Balance - end of period	**512,663**	506,382

7. REVENUE

Total Revenues	**For the three months ended**	
	March 31, 2022	March 31, 2021
Revenue from contracts	**27,043**	19,025
Revenue from other sources	**26,263**	24,245
	53,306	43,270

Timing of contract revenue recognition	**For the three months ended**	
	March 31, 2022	March 31, 2021
At a point in time	**22,147**	14,383
Over time	**4,896**	4,642
	27,043	19,025

8. SHARE CAPITAL

Issued and outstanding common shares at March 31, 2022 are 32,832,559 (December 31, 2021 – 32,961,015). During the three months ended March 31, 2022, there were 7,579 options exercised (Q1-2021 – nil).

On April 1, 2021 Melcor commenced a Normal Course Issuer (NCIB) which allowed us to purchase up to 1,654,553 share for cancellation, representing approximately 5% of the issued and outstanding shares up to a maximum daily limit of 3,781. The price, which Melcor paid for shares repurchased under the plan, were the market price at the time of acquisition. The NCIB ended on March 31, 2022.

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

During the three months ended March 31, 2022, there were 136,035 common shares purchased for cancellation by Melcor pursuant to the NCIB at a cost of $1,926 (December 31, 2021 - 244,726 common shares purchased at a cost of $3,350). Share capital was reduced by $289 and retained earnings reduced by $1,637.

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

9. SEGMENTED INFORMATION

Geographic Analysis

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

External Revenues	**For the three months ended**	
For the three months ended	**March 31, 2022**	March 31, 2021
United States	**3,908**	5,453
Canada	**49,398**	37,817
Total	**53,306**	43,270

Total Assets		
As at	**March 31, 2022**	December 31, 2021
United States	**286,650**	287,421
Canada	**1,828,238**	1,826,506
Total	**2,114,888**	2,113,927

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

9. SEGMENTED INFORMATION (continued)

Divisional Analysis

Our divisions reported the following results:

For the three months ended March 31, 2022	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	25,993	18	10,604	18,965	113	—	**55,693**	(2,387)	**53,306**
Cost of sales	(16,073)	—	(4,265)	(8,009)	(444)	—	**(28,791)**	671	**(28,120)**
Gross profit	9,920	18	6,339	10,956	(331)	—	**26,902**	(1,716)	**25,186**
General and administrative expense	(1,822)	(736)	(1,010)	(788)	(365)	(1,818)	**(6,539)**	686	**(5,853)**
Fair value adjustment on investment properties	—	328	(218)	(3,662)	—	—	**(3,552)**	1,030	**(2,522)**
Interest income	92	—	1	7	—	45	**145**	—	**145**
Segment earnings (loss)	8,190	(390)	5,112	6,513	(696)	(1,773)	**16,956**	—	**16,956**
Finance costs									**(4,494)**
Foreign exchange gain (loss)									**(109)**
Adjustments related to REIT units									**(7,234)**
Income before tax									**5,119**
Income tax expense									**(2,649)**
Net income for the period									**2,470**

For the three months ended March 31, 2021	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	14,877	32	11,029	19,486	84	—	**45,508**	(2,238)	**43,270**
Cost of sales	(8,879)	—	(4,213)	(7,894)	(414)	—	**(21,400)**	728	**(20,672)**
Gross profit	5,998	32	6,816	11,592	(330)	—	**24,108**	(1,510)	**22,598**
General and administrative expense	(1,563)	(466)	(617)	(803)	(334)	(1,780)	**(5,563)**	671	**(4,892)**
Fair value adjustment on investment properties	—	72	466	(401)	—	—	**137**	839	**976**
Gain on sale of assets	—	—	—	—	4	—	**4**	—	**4**
Interest income	140	—	1	7	—	8	**156**	—	**156**
Segment earnings (loss)	4,575	(362)	6,666	10,395	(660)	(1,772)	**18,842**	—	**18,842**
Finance costs									**(7,588)**
Adjustments related to REIT units									**(23,011)**
Loss before tax									**(11,757)**
Income tax expense									**(2,276)**
Net loss for the period									**(14,033)**

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

10. NON-CONTROLLING INTEREST IN MELCOR REIT

In accordance with our policy, we account for the remaining 44.6% publicly held interest in the REIT as a financial liability measured at fair value through profit or loss (“FVTPL”). As at March 31, 2022 the REIT units had a fair value of $93,928. We recorded adjustments related to REIT units for the three months ended March 31, 2022 of $7,234 (March 31, 2021 - $23,011). The onset of the pandemic introduced significant volatility in equity markets that has been reflected in the valuation of REIT units, and it isn't possible to predict the severity or duration of future volatility. As the valuation of the REIT units is dependent on the trading price of the REIT's trust units, the impact on the fair value cannot be estimated at this time and such impact could be material.

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

During the three month period, there was a total of 3,824 units (2021 - 38,477) purchased for cancellation at a cost of $25 (2021 - $228), which is recorded as a reduction in the balance of REIT units on the consolidated statement of financial position.

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

	For the three months ended	
	March 31, 2022	March 31, 2021
Fair value adjustment on REIT units (note 11)	**(5,678)**	(21,642)
Distributions to REIT unitholders	**(1,556)**	(1,369)
Adjustments related to REIT units	**(7,234)**	(23,011)

The following tables summarize the financial information relating to Melcor's subsidiary, the REIT, that has material non-controlling interest (NCI), before intra-group eliminations.

As at	**March 31, 2022**	December 31, 2021
Assets	**737,113**	735,668
Liabilities	**462,813**	460,344
Net assets	**274,300**	275,324
Cost of NCI	**103,959**	103,959
Fair value of NCI	**93,928**	88,275

	For the three months ended	
	March 31, 2022	March 31, 2021
Rental revenue	**18,965**	19,486
Net loss and comprehensive loss	**(6,538)**	(24,439)
Cash flows from operating activities	**4,293**	5,793
Cash flows used in investing activities	**(217)**	(179)
Cash flows used in financing activities, before distributions to REIT unitholders	**(1,903)**	(3,591)
Cash flows used in financing activities - cash distributions to REIT unitholders	**(1,556)**	(1,304)
Net increase in cash and cash equivalents	**617**	719

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

11. FAIR VALUE MEASUREMENT

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

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

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

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

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

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

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

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

					March 31, 2022	December 31, 2021	
	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**	**1,116,507**	**—**	**1,116,507**	**1,116,507**	1,118,805	1,118,805
Financial liabilities							
General debt, excluding convertible debentures and derivative financial liability	**Level 3**	**—**	**658,505**	**658,505**	**659,858**	646,613	659,699
Convertible debentures	**Level 2**	**—**	**65,980**	**65,980**	**62,496**	65,637	63,683
Derivative financial liability							
Conversion features on convertible debentures	**Level 3**	**6,479**	**—**	**6,479**	**6,479**	5,408	5,408
REIT units	**Level 1**	**93,928**	**—**	**93,928**	**93,928**	88,275	88,275
Derivative financial asset							
Interest rate swaps	**Level 3**	**2,313**	**—**	**2,313**	**2,313**	629	629
Conversion features on convertible debentures	**Level 3**	**—**	**—**	**—**	**—**	116	116

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

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 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 as at March 31, 2022 of which 2 legal phases included in investment properties (of 93 legal phases) with a fair value of $21,800 were valued by external valuation professionals (year ended December 31, 2021 - 29 legal phases included in investment properties (of 93 legal phases) with a fair value of $316,540). Valuations performed during the period resulted in net fair value losses of $2,522 (December 31, 2021 - net fair value gains of $19,370).

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

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

Weighted average annual stabilized net operating income for investment properties as at March 31, 2022 is $1,435 (December 31, 2021 - $1,444) per property. Other significant valuation metrics and unobservable inputs are set out in the following table. Fair values are most sensitive to changes in capitalization rates.

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

	Investment Properties			**Properties under Development**		
March 31, 2022	**Min**	**Max**	**Weighted Average**	**Min**	**Max**	**Weighted Average**
Capitalization rate	**5.25%**	**10.00%**	**6.65%**	**6.00%**	**6.25%**	**6.17%**
Terminal capitalization rate	**5.75%**	**9.00%**	**6.80%**	**6.25%**	**6.50%**	**6.42%**
Discount rate	**6.25%**	**9.75%**	**7.73%**	**7.00%**	**7.50%**	**7.37%**

	Investment Properties			Properties under Development		
December 31, 2021	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	5.25%	10.00%	6.68%	5.75%	6.25%	5.99%
Terminal capitalization rate	5.75%	9.00%	6.83%	6.00%	6.50%	6.24%
Discount rate	6.25%	9.75%	7.75%	7.00%	7.50%	7.22%

An increase in capitalization rates by 50 basis points would decrease the fair value and carrying amount of investment properties by $70,386 (December 31, 2021 - $65,956). A decrease in capitalization rates by 50 basis points would increase the fair value and carrying amount of investment properties by $81,832 (December 31, 2021 - $76,635). Due to the uncertainty of the economic environment as a result of COVID-19, these estimates could be subject to significant changes and such changes could be material.

General debt, excluding derivative financial liabilities

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

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

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

Derivative financial liabilities

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

The fair value of the interest rate swaps are calculated as the net present value of the future cash flows expected to arise on the variable and fixed portion, determined using applicable yield curves at the measurement date. As at March 31, 2022, the fair value of interest rate swap contracts was $2,313 (December 31, 2021 - $629).

The significant assumptions used in the fair value measurement of the conversion features on the REIT convertible debentures are volatility and credit spread. As at March 31, 2022 the fair value of the conversion features on our convertible debentures was $6,479 liability (December 31, 2021 - $5,408 liability and $116 asset). The onset of the pandemic introduced significant volatility in equity markets that has been reflective in the valuation of our REIT trust units. As the valuation of the conversion features on our REIT convertible debentures is dependent on the historical price of the REIT's trust units and the trading price of the convertible debentures, the impact on the valuation of the conversation features on REIT convertible debentures cannot be estimated at this time and such impact could be material.

REIT units

REIT units are remeasured to fair value on a recurring basis and categorized as level 1 in the fair value hierarchy. The units are fair valued based on the trading price of the REIT units at the period end date. At March 31, 2022 the fair value of the REIT units was $93,928, resulting in a fair value loss during the three months ended of $5,678 (March 31, 2021 - loss of $21,642) in the statement of income and comprehensive income for the period ended ended March 31, 2022 (note 10). The onset of the pandemic introduced significant volatility in equity markets that has been reflected in the valuation of REIT units, and it isn't possible to predict the severity or duration of future volatility. As the valuation of the REIT units is dependent on the trading price of the REIT's trust units, the impact on the fair value cannot be estimated at this time and such impact could be material.

12. RISK MANAGEMENT

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

a. Credit Risk

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

Accounts Receivables have historically been significantly low risk due to their individual immaterial balances, the nature of the party they are due from (including joint venture participants under management by Melcor), and overall lack of historical write offs. At this time, based on management's best estimate of the current economic outlook, management has assessed and recorded the current expected credit loss at $445 (December 31, 2021 - $604).

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

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

b. Liquidity Risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due. We manage liquidity risk to ensure that we have sufficient liquid financial resources to finance operations and meet long-term debt repayments. We monitor rolling forecasts of our liquidity, which includes cash and cash equivalents and the undrawn portion of the operating loan, on the basis of expected cash flows. In addition, we monitor balance sheet liquidity ratios against loan covenant requirements and maintain ongoing debt financing plans. We believe that we have access to sufficient capital through internally generated cash flows, external sources and undrawn committed borrowing facilities to meet current spending forecasts. We believe that based on the cash flow models created by management in order to incorporate the effects of COVID-19 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 $2,143 (December 31, 2021 - $2,052). We are not subject to other significant market risks pertaining to our financial instruments.

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

13. EVENTS AFTER THE REPORTING PERIOD

Normal Course Issuer Bid

On April 1, 2022 Melcor commenced a normal course issuer bid ("NCIB"), which allows Melcor to purchase up to 1,641,627 shares for cancellation, representing approximately 5% of the issued and outstanding shares. The shares may be repurchased up to a maximum daily limit of 1,281. The price, which Melcor will pay for shares repurchased under the plan, will be the market price at the time of acquisition. The NCIB ends one year from commencement on March 31, 2023.

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.

As of May 9, 2022, there were 31,782 common share units repurchased for cancellation by Melcor pursuant to the NCIB at a cost of $526.

Distributions on REIT trust units

The REIT declared the following distributions:

Month	Record Date	Distribution Date	Distribution Amount
April 2022	April 29, 2022	May 16, 2022	$0.04 per Unit
May 2022	May 31, 2022	June 15, 2022	$0.04 per Unit

Dividends declared

On May 9, 2022 our board of directors declared a dividend of $0.14 per share payable on June 30, 2022 to shareholders of record on June 15, 2022.