



Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2021

(Unaudited, in thousands of Canadian dollars)

Condensed Interim Consolidated Statement of Income

Unaudited (\$000s)	For the three months ended		For the nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Revenue (note 7)	56,213	73,051	165,030	145,871
Cost of sales	(29,313)	(46,456)	(85,539)	(82,729)
Gross profit	26,900	26,595	79,491	63,142
General and administrative expense	(5,206)	(4,705)	(15,062)	(13,996)
Fair value adjustment on investment properties (note 5 and 11)	5,183	(857)	10,040	(69,540)
Adjustments related to REIT units (note 10)	(843)	(2,871)	(30,529)	51,759
Gain on sale of assets	65	3	127	39
Operating earnings	26,099	18,165	44,067	31,404
Interest income	154	125	447	454
Finance costs	(5,966)	(7,646)	(22,607)	(20,437)
Net finance costs	(5,812)	(7,521)	(22,160)	(19,983)
Income before income taxes	20,287	10,644	21,907	11,421
Income tax (expense) recovery	(3,726)	(3,118)	(10,365)	155
Net income for the period	16,561	7,526	11,542	11,576
Income per share:				
Basic income per share	0.50	0.23	0.35	0.35
Diluted income per share	0.50	0.23	0.35	0.35

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Comprehensive Income

Unaudited (\$000s)	For the three months ended		For the nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Net income for the period	16,561	7,526	11,542	11,576
Other comprehensive income				
Items that may be reclassified subsequently to net income:				
Currency translation differences	4,804	(3,626)	229	4,451
Comprehensive income	21,365	3,900	11,771	16,027

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Financial Position

Unaudited (\$000s)	September 30, 2021	December 31, 2020
ASSETS		
Cash and cash equivalents	53,682	29,201
Restricted cash	10,300	7,413
Accounts receivable	6,274	12,414
Income taxes recoverable	—	3,214
Agreements receivable	62,145	73,336
Land inventory (note 4)	746,571	728,985
Investment properties (note 5 and 11)	1,106,611	1,081,077
Property and equipment	12,945	13,135
Other assets	55,581	52,510
	2,054,109	2,001,285
LIABILITIES		
Accounts payable and accrued liabilities	54,816	36,096
Income taxes payable	4,146	1,518
Provision for land development costs	46,983	49,770
General debt (note 6)	730,591	721,786
Deferred income tax liabilities	51,048	51,652
REIT units (note 10 and 11)	88,809	63,034
	976,393	923,856
SHAREHOLDERS' EQUITY		
Share capital (note 8)	72,127	72,270
Contributed surplus	5,573	4,948
Accumulated other comprehensive income (AOCI)	18,832	18,603
Retained earnings	981,184	981,608
	1,077,716	1,077,429
	2,054,109	2,001,285

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, 2021	72,270	4,948	18,603	981,608	1,077,429
Net income for the period	—	—	—	11,542	11,542
Cumulative translation adjustment	—	—	229	—	229
Transactions with equity holders					
Dividends	—	—	—	(10,576)	(10,576)
Share repurchase (note 8)	(289)	—	—	(1,390)	(1,679)
Employee share options					
Value of services recognized	—	762	—	—	762
Share issuance	146	(137)	—	—	9
Balance at September 30, 2021	72,127	5,573	18,832	981,184	1,077,716
	Equity attributable to Melcor's shareholders				
	Share capital	Contributed surplus	AOCI	Retained earnings	Total equity
Unaudited (\$000's)					
Balance at January 1, 2020	72,556	4,083	21,522	982,096	1,080,257
Net income for the period	—	—	—	11,576	11,576
Cumulative translation adjustment	—	—	4,451	—	4,451
Transactions with equity holders					
Dividends	—	—	—	(8,625)	(8,625)
Share repurchase	(210)	—	—	(521)	(731)
Employee share options					
Value of services recognized	—	644	—	—	644
Share issuance	8	(8)	—	—	—
Balance at September 30, 2020	72,354	4,719	25,973	984,526	1,087,572

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Cash Flows

Unaudited (\$000's)	For the three months ended		For the nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
CASH FLOWS FROM (USED IN)				
OPERATING ACTIVITIES				
Net income for the period	16,561	7,526	11,542	11,576
Non cash items:				
Amortization of tenant incentives	2,102	1,910	5,922	5,955
Depreciation of property and equipment	509	504	1,107	1,173
Stock based compensation expense	254	208	762	644
Non-cash finance costs	(135)	1,786	4,147	2,809
Straight-line rent adjustment	(271)	(134)	(583)	(755)
Fair value adjustment on investment properties (note 5 and 11)	(5,183)	857	(10,040)	69,540
Fair value adjustment on REIT units (note 10 and 11)	(648)	1,696	26,307	(56,324)
Gain on sale of assets	(65)	(3)	(127)	(39)
Deferred income taxes	(879)	(169)	(604)	(5,818)
	12,245	14,181	38,433	28,761
Agreements receivable	7,200	1,827	11,191	20,761
Development activities	(16,150)	12,525	(17,390)	(1,602)
Purchase of land inventory (note 4)	—	—	(3,037)	—
Payment of tenant lease incentives and direct leasing costs	(1,858)	(1,837)	(5,991)	(5,624)
Change in restricted cash	(5,109)	(4,978)	(2,882)	(11,503)
Operating assets and liabilities	14,461	(7,791)	26,165	3,491
	10,789	13,927	46,489	34,284
INVESTING ACTIVITIES				
Purchase of investment properties (note 5)	—	—	(1,438)	—
Additions to investment properties (note 5)	(6,857)	(7,421)	(20,009)	(20,817)
Net proceeds from disposal of investment properties (note 5)	7,079	6,925	7,425	7,182
Net proceeds from disposal of asset held for sale	—	—	—	—
Purchase of property and equipment	(341)	(43)	(1,036)	(1,029)
Proceeds on disposal of property and equipment	101	4	247	51
	(18)	(535)	(14,811)	(14,613)
FINANCING ACTIVITIES				
Revolving credit facilities	12,337	8,773	27,143	587
Proceeds from general debt	34,758	22,201	94,101	35,065
Repayment of general debt	(44,628)	(34,520)	(115,762)	(46,842)
Repurchase of REIT units	—	—	(533)	(336)
Dividends paid	(3,959)	(2,650)	(10,576)	(8,625)
Common shares repurchased (note 8)	(1,371)	(167)	(1,679)	(731)
Share capital issued	9	—	9	—
	(2,854)	(6,363)	(7,297)	(20,882)
FOREIGN EXCHANGE GAIN ON CASH HELD IN A FOREIGN CURRENCY	217	83	100	497
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	8,134	7,112	24,481	(714)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	45,548	29,154	29,201	36,980
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	53,682	36,266	53,682	36,266
Total income taxes paid	1,439	4,000	8,041	7,712
Total interest paid	7,197	7,208	21,555	24,786

See accompanying notes to these condensed interim consolidated financial statements.

1. DESCRIPTION OF THE BUSINESS

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

Melcor Developments Ltd. ("Melcor" or "we") is incorporated in Canada. The registered office is located at Suite 900, 10310 Jasper Avenue Edmonton, AB T5J 1Y8. We operate in Canada and the United States ("US"). Our shares are traded on the Toronto Stock Exchange under the symbol "MRD". As at September 30, 2021 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 November 9, 2021, 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, 2020, which have been prepared in accordance with IFRS.

These condensed interim consolidated financial statements were approved for issue by the Board of Directors on November 9, 2021.

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. There are no new or amended standards adopted during the current quarter.

4. LAND INVENTORY

	September 30, 2021	December 31, 2020
Raw land held	393,700	395,785
Land under development	205,494	161,647
Developed land	147,377	171,553
	746,571	728,985

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 outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", the net realizable value of land could be subject to significant changes and such changes could be material. As at September 30, 2021 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.

During the nine month period ended September 30, 2021, we purchased 17.1 acres of land in Buckeye, Arizona in the United States at a cost of \$3,037 (USD\$2,450) for cash. During the nine month period ended September 30, 2020, there were no land purchases made.

5. INVESTMENT PROPERTIES

Investment properties consists of the following:

	September 30, 2021	December 31, 2020
Investment properties	1,032,241	1,016,312
Properties under development	74,370	64,765
Total	1,106,611	1,081,077

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

	Nine months ended September 30, 2021		
	Investment Properties	Properties under Development	Total
Balance - beginning of period	1,016,312	64,765	1,081,077
Additions			
Direct acquisition	—	1,438	1,438
Transfer from land inventory	—	301	301
Direct leasing costs	725	417	1,142
Property improvements	2,655	—	2,655
Development costs	—	16,916	16,916
Capitalized borrowing costs	—	438	438
Disposals	(7,425)	—	(7,425)
Transfers	11,605	(11,605)	—
Fair value adjustment on investment properties	8,340	1,700	10,040
Foreign currency translation (included in OCI)	29	—	29
Balance - end of period	1,032,241	74,370	1,106,611

	Year ended December 31, 2020		
	Investment Properties	Properties under Development	Total
Balance - beginning of year	1,063,026	78,565	1,141,591
Additions			
Direct leasing costs	779	387	1,166
Property improvements	2,902	—	2,902
Development costs	—	20,229	20,229
Capitalized borrowing costs	—	463	463
Disposals	(6,600)	—	(6,600)
Transfers	38,537	(38,537)	—
Fair value adjustment on investment properties	(80,138)	3,658	(76,480)
Foreign currency translation (included in OCI)	(2,194)	—	(2,194)
Balance - end of year	1,016,312	64,765	1,081,077

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

During the third quarter of 2021, we disposed of an office building in Arizona for a net sale price of \$7,084 (US\$5,684) (net of transaction costs).

During the nine months ended September 30, 2021, we also disposed of one residential unit in Arizona for net sale price of \$341 (US\$278) net of transaction costs.

6. GENERAL DEBT	September 30, 2021	December 31, 2020
Melcor - revolving credit facilities	97,054	59,925
REIT - revolving credit facility	—	9,986
Project specific financing	39,197	66,248
Secured vendor take back debt on land inventory	15,748	28,616
Debt on investment properties and golf course assets	507,263	490,801
REIT - convertible debentures	71,329	66,210
General debt	730,591	721,786

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

	September 30, 2021	December 31, 2020
Balance - beginning of period	66,248	68,436
Cash movements		
Loan repayments	(28,991)	(21,676)
New project financing	1,980	19,540
Non-cash movements		
Foreign currency translation included in OCI	(40)	(52)
Balance - end of period	39,197	66,248

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

	September 30, 2021	December 31, 2020
Balance - beginning of period	28,616	39,005
Cash movements		
Principal repayments		
Scheduled amortization on debt	(12,868)	(10,389)
Balance - end of period	15,748	28,616

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

	September 30, 2021	December 31, 2020
Balance - beginning of period	490,801	484,413
Cash movements		
Principal repayments		
Scheduled amortization on debt	(12,862)	(13,841)
Mortgage repayments	(61,109)	(25,554)
New mortgages	92,121	44,690
Non-cash movements		
Deferred interest payments	—	971
Deferred financing fees capitalized	(734)	(503)
Amortization of deferred financing fees	451	538
Change in derivative fair value swap	(1,421)	1,351
Foreign currency translation included in OCI	16	(1,264)
Balance - end of period	507,263	490,801

7. REVENUE

Total Revenues	For the three months ended		For the nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	Revenue from contracts	35,074	50,951	97,981
Revenue from other sources	21,139	22,100	67,049	66,430
	56,213	73,051	165,030	145,871

Timing of contract revenue recognition	For the three months ended		For the nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	At a point in time	30,636	46,246	84,807
Over time	4,438	4,705	13,174	14,127
	35,074	50,951	97,981	79,441

8. SHARE CAPITAL

Issued and outstanding common shares at September 30, 2021 are 32,966,423 (December 31, 2020 – 33,091,061). During the three and nine months ended September 30, 2021, there were 3,606 options exercised (Q3-2020 – nil).

On April 1, 2021 Melcor commenced a new 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. The shares may be repurchased up to a maximum daily limit of 3,781. The price, which Melcor will pay for shares repurchased under the plan, will be the market price at the time of acquisition. The new NCIB ends one year from commencement on March 31, 2022.

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

For the three months ended September 30, 2021, there were 102,420 common shares purchased for cancellation by Melcor pursuant to the new NCIB at a cost of \$1,371. Share capital was reduced by \$233 and retained earnings reduced by \$1,138. Year to date, there were a total of 128,244 common shares purchased for cancellation at a cost of \$1,679 (December 31, 2020 - 134,816 common shares purchased at a cost of \$976) with share capital reduced by \$289 and retained earnings reduced by \$1,390 under the above mentioned NCIB agreement.

9. SEGMENTED INFORMATION

Geographic Analysis

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

External Revenues	For the three months ended		For the nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
<i>For the three months ended</i>				
United States	17,675	31,403	26,784	45,276
Canada	38,538	41,648	138,246	100,595
Total	56,213	73,051	165,030	145,871

Total Assets

As at	September 30, 2021	December 31, 2020
United States	257,750	243,283
Canada	1,796,359	1,758,002
Total	2,054,109	2,001,285

9. SEGMENTED INFORMATION (continued)

Divisional Analysis

Our divisions reported the following results:

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

For the three months ended September 30, 2020	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	43,076	13,973	9,241	18,441	4,380	—	89,111	(16,060)	73,051
Cost of sales	(32,635)	(13,867)	(3,898)	(8,470)	(2,267)	—	(61,137)	14,681	(46,456)
Gross profit	10,441	106	5,343	9,971	2,113	—	27,974	(1,379)	26,595
General and administrative expense	(1,800)	(390)	(538)	(748)	(683)	(1,394)	(5,553)	848	(4,705)
Fair value adjustment on investment properties	—	2,462	(1,315)	(2,535)	—	—	(1,388)	531	(857)
Gain on sale of assets	—	—	—	—	3	—	3	—	3
Interest income	105	—	1	13	—	6	125	—	125
Segment earnings (loss)	8,746	2,178	3,491	6,701	1,433	(1,388)	21,161	—	21,161
Finance costs									(7,646)
Adjustments related to REIT units									(2,871)
Income before tax									10,644
Income tax expense									(3,118)
Net income for the period									7,526

For the nine months ended September 30, 2021	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	78,832	12,011	29,430	55,552	9,291	—	185,116	(20,086)	165,030
Cost of sales	(49,583)	(11,900)	(11,953)	(22,331)	(4,754)	—	(100,521)	14,982	(85,539)
Gross profit	29,249	111	17,477	33,221	4,537	—	84,595	(5,104)	79,491
General and administrative expense	(5,071)	(1,344)	(1,632)	(2,215)	(1,953)	(5,185)	(17,400)	2,338	(15,062)
Fair value adjustment on investment properties	—	1,133	3,476	2,665	—	—	7,274	2,766	10,040
Gain on sale of assets	—	—	—	—	127	—	127	—	127
Interest income	405	—	1	20	—	21	447	—	447
Segment earnings (loss)	24,583	(100)	19,322	33,691	2,711	(5,164)	75,043	—	75,043
Finance costs									(22,607)
Adjustments related to REIT units									(30,529)
Income before tax									21,907
Income tax expense									(10,365)
Net income for the period									11,542
For the nine months ended September 30, 2020	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	60,793	14,171	28,571	55,830	7,140	—	166,505	(20,634)	145,871
Cost of sales	(45,697)	(13,867)	(11,540)	(23,622)	(4,117)	—	(98,843)	16,114	(82,729)
Gross profit	15,096	304	17,031	32,208	3,023	—	67,662	(4,520)	63,142
General and administrative expense	(4,825)	(1,320)	(1,845)	(2,279)	(1,648)	(4,456)	(16,373)	2,377	(13,996)
Fair value adjustment on investment properties	—	3,070	(14,922)	(59,831)	—	—	(71,683)	2,143	(69,540)
Gain on sale of assets	—	—	—	—	39	—	39	—	39
Interest income	344	13	18	60	—	19	454	—	454
Segment earnings (loss)	10,615	2,067	282	(29,842)	1,414	(4,437)	(19,901)	—	(19,901)
Finance costs									(20,437)
Adjustments related to REIT units									51,759
Income before tax									11,421
Income tax recovery									155
Net income for the period									11,576

10. NON-CONTROLLING INTEREST IN MELCOR REIT

In accordance with our policy, we account for the remaining 44.6% publicly held interest in the REIT as a financial liability measured at fair value through profit or loss ("FVTPL"). As at September 30, 2021 the REIT units had a fair value of \$88,809. We recorded adjustments related to REIT units for the three and nine months ended September 30, 2021 of \$843 and \$30,529 respectively (Q3-2020 - \$2,871 and \$51,759). Melcor notes that it is currently not possible to estimate the long-term impact that COVID-19 will have on the economy, including the equity markets. As the valuation of the REIT units is dependent on the trading price of the REIT's trust units, the impact on the fair value cannot be estimated at this time and such impact could be material.

On April 1, 2021 the REIT commenced a new 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 new REIT NCIB ends one year from commencement on March 31, 2022.

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

During the nine-month period, there was a total of 85,683 units (2020 - 82,790) purchased for cancellation at a cost of \$533 (2020 - \$336), which is recorded as a reduction in the balance of REIT units on the consolidated statement of financial position.

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

	For the three months ended		For the nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Fair value adjustment on REIT units (note 11)	648	(1,696)	(26,307)	56,324
Distributions to REIT unitholders	(1,491)	(1,175)	(4,222)	(4,565)
Adjustments related to REIT units	(843)	(2,871)	(30,529)	51,759

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, 2021	December 31, 2020
Assets	733,330	724,658
Liabilities	460,809	458,367
Net assets	272,521	266,291
Cost of NCI	103,959	103,959
Fair value of NCI	88,809	63,034

	For the three months ended		For the nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Rental revenue	18,089	18,441	55,552	55,830
Net (loss) income and comprehensive (loss) income	7,470	(1,645)	(21,588)	21,477
Cash flows from operating activities	4,540	4,549	12,332	10,954
Cash flows used in investing activities	(790)	(116)	(1,956)	(685)
Cash flows used in financing activities, before distributions to REIT unitholders	(1,322)	(2,717)	(4,374)	(3,346)
Cash flows used in financing activities - cash distributions to REIT unitholders	(1,426)	(1,177)	(4,092)	(4,913)
Net increase in cash and cash equivalents	1,002	539	1,910	2,010

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 receivables, 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 derivative financial liabilities - interest rate swaps are estimated by discounting the future cash flows associated with the debt at market interest rates (Level 2).
- 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 and the fair value of the convertible debenture is estimated based on the closing trading price of the REIT's debenture (Level 1).

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

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

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

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

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

	September 30, 2021					December 31, 2020	
	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	1,106,611	—	1,106,611	1,106,611	1,081,077	1,081,077
Financial liabilities							
General debt, excluding convertible debentures and derivative financial liability	Level 3	—	658,920	658,920	659,013	654,200	656,510
Convertible debentures	Level 2	—	65,323	65,323	64,265	64,339	56,779
Derivative financial liability							
Interest rate swaps	Level 3	342	—	342	342	1,376	1,376
Conversion features on convertible debentures	Level 3	6,006	—	6,006	6,006	1,871	1,871
REIT units	Level 1	88,809	—	88,809	88,809	63,034	63,034

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 each quarter, and supported by valuations completed by external valuation professionals. During the nine months ended September 30, 2021, 18 investment properties (of 93 legal phases) with a fair value of \$189,883 were valued by external valuation professionals (year ended December 31, 2020 - 85 investment properties (of 93 legal phases) with a fair value of \$988,623). Valuations performed during the nine months ended September 30, 2021, resulted in net fair value gains of \$10,040 (December 31, 2020 - net fair value losses of \$76,480).

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

Asset	Valuation approach	Significant unobservable inputs	Relationship between inputs 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, 2021 is \$1,448 (December 31, 2020 - \$1,476) 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
September 30, 2021						
Capitalization rate	5.25%	10.00%	6.68%	5.75%	6.25%	5.98%
Terminal capitalization rate	5.75%	9.00%	6.82%	6.00%	6.50%	6.23%
Discount rate	6.25%	9.75%	7.75%	6.75%	7.50%	7.20%
	Investment Properties			Properties under Development		
	Min	Max	Weighted Average	Min	Max	Weighted Average
December 31, 2020						
Capitalization rate	5.25%	10.00%	6.85%	6.00%	6.25%	6.14%
Terminal capitalization rate	5.75%	9.00%	6.85%	6.00%	6.50%	6.30%
Discount rate	6.25%	9.75%	7.90%	7.00%	7.50%	7.27%

An increase in capitalization rates by 50 basis points would decrease the fair value and carrying amount of investment properties by \$63,337 (December 31, 2020 - \$62,874). A decrease in capitalization rates by 50 basis points would increase the fair value and carrying amount of investment properties by \$73,344 (December 31, 2020 - \$72,771). 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 and convertible debenture 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.

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 September 30, 2021, the fair value of interest rate swap contracts was \$342 (December 31, 2020 - \$1,376).

The significant unobservable inputs used in the fair value measurement of the conversion features on the REIT convertible debentures are volatility and credit spread. As at September 30, 2021 the fair value of the conversion features on our convertible debentures was \$6,006 (December 31, 2020 - \$1,871). Melcor notes that it is not possible to estimate the long-term impact that COVID-19 will have on the economy, including the equity and debt markets. As the valuation of the conversion features on our REIT convertible debentures is dependent on the historical price of the REIT's trust units and the trading price of the convertible debentures, the impact on the valuation of the 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 September 30, 2021 the fair value of the REIT units was \$88,809, resulting in a fair value loss during the nine months ended of \$26,307 (Q3-2020 - gain of \$56,324) in the statement of income and comprehensive income for the period ended ended September 30, 2021 (note 10). Melcor notes that it is currently not possible to estimate the long-term impact that COVID-19 will have on the economy, including the equity markets. As the valuation of the REIT units is dependent on the trading price of the REIT's trust units, the impact on the fair value cannot be estimated at this time and such impact could be material.

12. RISK MANAGEMENT

As a result of COVID-19, 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. Commencing in the first quarter of 2020, in light of COVID-19, management notes that there is risk associated with the receivables pertaining to tenant rent included with accounts receivables. As a result of the risks associated COVID-19 and its effect on the ability of tenants to settle their receivables, as well as government assistance programs put in place, Melcor has adjusted the expected credit losses on this specific group of receivables. 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 \$581.

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.

Due to the uncertain economic conditions surrounding COVID-19, Melcor recognizes that our counterparties' credit risk could be negatively impacted. 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 \$2,191 (December 31, 2020 - \$2,021). We are not subject to other significant market risks pertaining to our financial instruments.

13. EVENTS AFTER THE REPORTING PERIOD

Distributions on REIT trust units

On October 15, 2021 the REIT declared a distribution of \$0.04 per unit for the months of October, November and December 2021. The distributions will be payable as follows:

Month	Record Date	Distribution Date	Distribution Amount
October 2021	October 29, 2021	November 15, 2021	\$0.04 per unit
November 2021	November 30, 2021	December 15, 2021	\$0.04 per unit
December 2021	December 31, 2021	January 17, 2022	\$0.04 per unit

Dividends declared

On November 9, 2021 our board of directors declared a dividend of \$0.12 per share payable on December 31, 2021 to shareholders of record on December 15, 2021.