PRESS RELEASE

for immediate distribution

Melcor Developments announces second quarter results, declares quarterly dividend of $0.15 per share

Edmonton, Alberta | August 11, 2022

Melcor Developments Ltd. (TSX: MRD), an Alberta-based real estate development and asset management company, today reported results for the second quarter and six months ended June 30, 2022. Revenue was down 4% to $104.35 million year-to-date and down 22% in the quarter as a result of the cyclical nature of the real estate industry and timing of sales in the current and comparative periods.

Net income was impacted by non-cash fair value gains of $7.81 million on REIT units related to unit price appreciation compared to December 31, 2021 and $3.32 million in fair value losses on investment properties, resulting in net income of $28.38 million or $0.87 per share (basic) year-to-date. This compares with 2021 year-to-date results including non-cash fair value losses of $26.96 million on REIT units and fair value gains of $4.86 million contributing to the net loss of $5.02 million or $0.15 loss per share (basic).

As a result of significant swings in fair value adjustments, management relies on Funds From Operations (FFO) as a better reflection of Melcor's true operating performance. Year-to-date FFO decreased 15% to $22.55 million or $0.69 per share over 2021 and was down 27% to $11.85 million or $0.36 per share in the quarter as a result of lower revenue in our Community Development division, and higher operating and administrative costs. Revenue in our Community Development division is impacted by the type of product sold and revenue in our income-producing divisions (Investment Properties and REIT) continue to yield stable revenue and results compared to 2021.

In the quarter, our Community Development division sold 116 single-family lots and 8.85 acres (Q2-2021: 177 single-family lots and 14.16 acres). Year-to-date, our Community Development division sold 404 single-family lots and 16.43 acres (2021: 299 single-family lots and 22.69 acres). Occupancy in our income-producing divisions (Investment Properties and REIT) remained stable over Q1-2021 at 85%. We have had strong retention in our income-producing divisions (Investment Properties and REIT) at 87% year-to-date and occupancy has increased 1% since December 31, 2021.

Timothy Melton, Melcor's Executive Chair and Chief Executive Officer, commented: "We are pleased to present Melcor's results for the second quarter of 2022. The Community Development division had a strong quarter, with 116 single-family lots sold and 8.85 acres of serviced land sold, including both commercial and multi-family sites. Increasing interest rates are negatively impacting real estate markets in general, but the Alberta economy is benefiting from higher oil and natural gas prices. Melcor is well-positioned to meet demand for serviced residential lots and has the potential to bring on several new phases of development over the next few quarters.

Revenue and occupancy in our income-producing divisions were up slightly in the quarter. Occupancy for IP was 77% for our Canadian properties and 81% for US properties. Leasing activity was strong with 273,154 sf of new and renewed leases in the REIT leading to occupancy of 87% at quarter-end. Our Property Development division transferred one building in Jensen Lakes Crossing (St. Albert, AB) comprised of 7,049 sf to our Investment Properties division in the quarter.

Our Recreational Properties saw later opening dates compared to 2021 resulting in a slight decrease in rounds played. However, a bump in food and beverage sales lead to a 2% increase in revenue to $4.65 million in Q2-2022 and 3% to $4.76 million year-to-date."

Second Quarter Results

Given the longer term nature of real estate development, comparison of any three-month period may not be meaningful.

The market continues to be challenged by inflation and rising interest rates. In particular, the leasing market has seen added supply in some of our core regions and a shift in demand for product with new construction and remote and hybrid work models following the lifting of work from home restrictions.

Occupancy in our investment properties (including the REIT) increased over year-end to 85% (Q4-2021: 84%). Our year-to-date retention was healthy at 87%. Strong leasing activity in our Property Development division continues to drive new development in commercial centres that complement and enhance our communities.

Demand remains strong throughout all regions in our Community Development division with plenty of activity in sales and construction. The US community development model differs from Canadian markets, with the majority of revenue occurring in a single quarter. Builders buy lots in bulk to develop themselves and build homes to sell to homeowners. These are often referred to as "paper lot sales". Demand for additional lots in our Arizona and Colorado developments remains high. We expect to complete and recognize sales by the end of the year.

Investment properties GLA increased slightly as a result of property transferred from Property Development over the past 12 months. Revenue from our Income Properties and REIT divisions was up in the quarter compared to Q2-2021. Our year-to date results continue to be impacted by lease termination fees received in our REIT division ($1.00 million) and Investment Properties division ($1.94 million) which occurred in early 2021.

FINANCIAL HIGHLIGHTS

Revenue was down 22% to $51.04 million in Q2-2022 (Q2-2021: $65.55 million) and down 4% year-to-date as a result of the cyclical nature of the real estate industry and timing of sales in the current and comparative periods. Lot sales, which have a significant impact on quarterly results, are uneven by nature and it is difficult to predict when they will close. Typically we see the most revenue from lot sales in the third and forth quarters as that is when plans typically register. These factors have contributed to a year-to-date decrease of 12% in Community Development revenue. The sale of 5.49 acres of multi-family land positively contributed to Q2-2022 revenue (Q2-2021- nil).

On a year-to-date basis FFO was down 15% or $3.95 million. Comparative FFO continues to be impacted by lease termination fees received in both REIT ($1.00 million) and Investment Properties ($1.94 million) divisions. Adjusting out these one time events, FFO was down $1. 01 million primarily the result of increased consolidated G&A which was up $1.47 million over 2021 and timing of sales in Community Development.

Net income was $25.91 million in Q2-2022 compared to $9.01 million in Q2-2021. Net income is significantly impacted by swings in non-cash fair value adjustments on investment properties and REIT units. The change in the REIT's unit price has a counter-intuitive impact on net income as an increase in unit value decreases net income. These gains are driven by market forces outside of Melcor's control and are a key reason we focus on FFO as a truer measure of our financial performance.

DIVISIONAL OPERATING HIGHLIGHTS

The **Community Development** division saw healthy sales activity in our Canadian markets, including satellite communities such as St. Albert, Spruce Grove, Airdrie and Cochrane. Year-to-date, we sold 404 single-family lots compared to 299 last year. We continue to move new communities and additional phases in existing neighbourhoods through the municipal approval process. Due to the bulk selling nature of our Harmony community in Denver, CO, no lots were sold in the US in the second quarter or year-to-date.

The **Property Development** division currently has 39,089 sf in 2 projects (Clearview Market 2 and Greenwich) under construction, and transferred one CRU (7,049 sf) in Jensen Lakes to our Investment Properties division in the quarter. A further 23,247 sf in 2 projects (Woodbend Market and Chestermere Station) is complete and awaiting lease-up and transfer. Construction and leasing activity resulted in fair value gains of $0.08 million in the quarter and $0.41 million year-to-date.

Revenue in our income-producing divisions, which includes **Investment Properties** and **REIT** continued to produce stable results in both the quarter and year-to-date. Total GLA under management varies period over period as a result of both property transfers and remeasures of property that typically occur on lease transfers and/or renewals. Year-to-date results continue to be impacted by early termination fees received in Q1-2021, which are included in other revenue, and the disposition of 11 residential units in the US in late 2021, resulting in reduced revenue. In Q2-2022, we disposed of 6 residential units in the US. Increased occupancy on our Canadian and US assets contributed positively to revenue.

The Investment Property portfolio fair value decreased $1.61 million in Q2-2022. To date in 2022, we had 25 legal phases valued by external valuation professionals. We have seen some shifts in the market this quarter and a slight increase in cap rates on our office properties, which decreases the fair value of an asset, and slight cap rate decreases on our retail portfolio. Fair value is also impacted by increased tenant incentives spend that did not have a corresponding increase in fair value.

Our **Recreational Properties** saw a 19% decrease in rounds played to date in 2022 as a result of later course openings compared to 2021. However, revenue increased 3% to $4.76 million as a result of increased food and beverages sales in our clubhouses and restaurants.

RETURNING VALUE

We continue to return value to our shareholders and unitholders:

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* We paid a quarterly dividend of $0.14 per share in March 2022 and June 2022.
* On August 11, 2022 we declared a quarterly dividend of $0.15 per share, payable on September 30, 2022 to shareholders of record on September 15, 2022. The dividend is an eligible dividend for Canadian tax purposes.
* The REIT increased monthly distributions by 14% to $0.04 per unit compared to Q2-2021.
* The REIT declared the following distribution for period subsequent to the quarter:

Month	Record Date	Distribution Date	Distribution Amount
July 2022	July 29, 2022	August 15, 2022	$0.04 per Unit

Selected Highlights

($000s except as noted)	Three months ended June 30			Six months ended June 30		
	2022	2021	Change %	**2022**	2021	Change %
Revenue	**51,044**	65,547	(22)	**104,350**	108,817	(4)
Gross margin[1]	**50.7%**	45.8%	11	**48.9%**	48.3%	1
Net income (loss)	**25,908**	9,014	187	**28,378**	(5,019)	665
Net margin[1]	**50.8%**	13.8%	268	**27.2%**	(4.6)%	691
FFO[2]	**11,853**	16,326	(27)	**22,550**	26,500	(15)
Per Share Data ($)						
Basic earnings	**0.79**	0.27	193	**0.87**	(0.15)	680
Diluted earnings	**0.79**	0.27	193	**0.86**	(0.15)	673
FFO[3]	**0.36**	0.49	(27)	**0.69**	0.80	(14)
Dividends	**0.14**	0.10	40	**0.14**	0.10	40

As at ($000s except share and per share amounts)	**30-Jun-2022**	31-Dec-2021	Change %
Total assets	**2,141,884**	2,113,927	1.3
Shareholders' equity	**1,134,734**	1,116,469	1.6
Total shares outstanding	**32,623,921**	32,961,015	(1.0)
Per Share Data ($)			
Book value [(3)]	**34.78**	33.87	2.7

1. *Supplementary financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.*
2. *Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.*
3. *Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.*

MD&A and Financial Statements

Information included in this press release is a summary of results. This press release should be read in conjunction with Melcor's consolidated financial statements and management's discussion and analysis for the three and six months ended June 30, 2022, which can be found on the company's website at www.Melcor.ca or on SEDAR (www.sedar.com).

Non-GAAP & Non-Standard Measures

FFO is a key measures of performance used by real estate operating companies; however, that is not defined by International Financial Reporting Standards ("IFRS"), do not have standard meanings and may not be comparable with other industries or income trusts. This non-IFRS measures are more fully defined and discussed in the Melcor's management discussion and analysis for the period ended June 30, 2022, which is available on SEDAR at www.sedar.com.

Funds from operations (FFO): FFO is a non*GAAP financial measure and is defined as net income in accordance with IFRS, excluding (i) fair value adjustments on investment properties; (ii) gains (or losses) from sales of investment properties; (iii) amortization of tenant incentives; (iv) fair value adjustments, interest expense and other effects of redeemable units classified as liabilities; (v) acquisition costs expensed as a result of the purchase of a property being accounted for as a business combination; (vi) adjustment for amortization of deferred financing fees, which is included in non-cash financing costs and (vii) fair value adjustment on derivative instrument, after adjustments for equity accounted entities, joint ventures and non-controlling interests calculated to reflect FFO on the same basis as consolidated properties. See tables below for reconciliation of FFO:

Consolidated

($000s)	Three-months		Six-months	
	June 30, 2022	June 30, 2021	**June 30, 2022**	June 30, 2021
Net income (loss) for the period	**25,908**	9,014	**28,378**	(5,019)
Amortization of operating lease incentives	**1,475**	1,809	**2,882**	3,820
Fair value adjustment on investment properties	**795**	(3,881)	**3,317**	(4,857)
Depreciation on property and equipment	**452**	420	**608**	598
Stock based compensation expense	**216**	242	**333**	508
Non-cash finance costs	**(3,820)**	3,008	**(5,292)**	4,282
Gain on sale of asset	**(8)**	(58)	**(8)**	(62)
Deferred income taxes	**318**	459	**137**	275
Fair value adjustment on REIT units	**(13,483)**	5,313	**(7,805)**	26,955
FFO	**11,853**	16,326	**22,550**	26,500

Investment Properties

($000s)	Three-months		Six-months	
	June 30, 2022	June 30, 2021	**June 30, 2022**	June 30, 2021
Segment Earnings	**9,125**	8,133	**14,237**	14,799
Fair value adjustment on investment properties	**(3,932)**	(3,405)	**(3,714)**	(3,871)
Amortization of operating lease incentives	**393**	293	**758**	808
Divisional FFO	**5,586**	5,021	**11,281**	11,736

REIT

($000s)	Three-months		Six-months	
	June 30, 2022	June 30, 2021	**June 30, 2022**	June 30, 2021
Segment Earnings	**4,282**	10,629	**10,795**	21,024
Fair value adjustment on investment properties	**5,540**	(531)	**9,202**	(130)
Amortization of operating lease incentives	**906**	936	**1,807**	1,851
Divisional FFO	**10,728**	11,034	**21,804**	22,745

Gross margin (%): Gross margin percent is a supplementary financial measure that indicates the relative efficiency with which we earn revenue. This ratio is calculated by dividing gross profit by revenue.

Net margin (%): Net margin percent is a supplementary financial measure that indicates the relative efficiency with which we earn income. This ratio is calculated by dividing net income by revenue.

Book value per share: Book value per share is a non-GAAP financial ratio and is calculated as shareholders' equity over number of common shares outstanding.

About Melcor Developments Ltd.

Melcor is a diversified real estate development and asset management company that transforms real estate from raw land through to high-quality finished product in both residential and commercial built form. Melcor develops and manages mixed-use residential communities, business and industrial parks, office buildings, retail commercial centres and golf courses. Melcor owns a well diversified portfolio of assets in Alberta, Saskatchewan, British Columbia, Arizona and Colorado.

Melcor has been focused on real estate since 1923. The company has built over 140 communities and commercial projects across Western Canada and today manages 4.77 million sf in commercial real estate assets and 587 residential rental units. Melcor is committed to building communities that enrich quality of life - communities where people live, work, shop and play.

Melcor's headquarters are located in Edmonton, Alberta, with regional offices throughout Alberta and in Kelowna, British Columbia and Phoenix, Arizona. Melcor has been a public company since 1968 and trades on the Toronto Stock Exchange (TSX:MRD).

Forward Looking Statements

In order to provide our investors with an understanding of our current results and future prospects, our public communications often include written or verbal forward-looking statements.

Forward-looking statements are disclosures regarding possible events, conditions, or results of operations that are based on assumptions about future economic conditions, courses of action and include future-oriented financial information.

This news release and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent Melcor's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Future-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2022 and beyond, future development plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook of our operations.

By their nature, forward-looking statements require assumptions and involve risks and uncertainties related to the business and general economic environment, many beyond our control. There is significant risk that the predictions, forecasts, valuations, conclusions or projections we make will not prove to be accurate and that our actual results will be materially different from targets, expectations, estimates or intentions expressed in forward-looking statements. We caution readers of this document not to place undue reliance on forward-looking statements. Assumptions about the performance of the Canadian and US economies and how this performance will affect Melcor's business are material factors we consider in determining our forward-looking statements. For additional information regarding material risks and assumptions, please see the discussion under Business Environment and Risk in our annual MD&A and the additional disclosure under Business Environment and Risk in this MD&A.

Readers should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Except as may be required by law, we do not undertake to update any forward-looking statement, whether written or oral, made by the company or on its behalf.

Contact Information:
Investor Relations
Tel: 1.855.673.6931
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Management's Discussion & Analysis

August 11, 2022

The following discussion of Melcor Developments' (Melcor's) financial condition and results of operations should be read in conjunction with the condensed interim consolidated financial statements and related notes for the three and six months ended June 30, 2022 and management's discussion & analysis (MD&A) and consolidated financial statements for the fiscal year ended December 31, 2021.

The financial statements underlying this MD&A, including 2021 comparative information, have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting, unless otherwise noted. All dollar amounts included in this MD&A are Canadian dollars unless otherwise specified.

Melcor's Board of Directors approved the content of this MD&A on August 11, 2022 on the recommendation of the Audit Committee.

Other Information

Additional information about Melcor, including our annual information form, information circular and annual and quarterly reports, is available on SEDAR at www.sedar.com.

Non-standard Measures

We refer to terms that are not specifically defined in the CPA Handbook and do not have any standardized meaning prescribed by IFRS. These non-standard measures may not be comparable to similar measures presented by other companies. We believe that these non-standard measures are useful in assisting investors in understanding components of our financial results. For a definition of these measures, refer to the section "Non-GAAP and Non-standard Measures".

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Our Business

Melcor is a diversified real estate development and asset management company. We transform real estate from raw land to high-quality residential communities and commercial developments. We develop and manage mixed-use residential communities, business and industrial parks, office buildings, retail commercial centres and golf courses.

We are committed to building communities that enrich quality of life - communities where people live, work, shop and play.

We operate four integrated divisions that together manage the full life cycle of real estate development:

- acquiring raw land and planning residential communities and commercial developments (Community Development)
- project managing development, leasing and construction of commercial properties (Property Development)
- operating a portfolio of commercial and residential properties, focused on property improvements and capital appreciation of owned properties and property management of REIT owned properties (Investment Properties)
- acquiring and owning high quality leasable commercial and residential sites (the REIT)

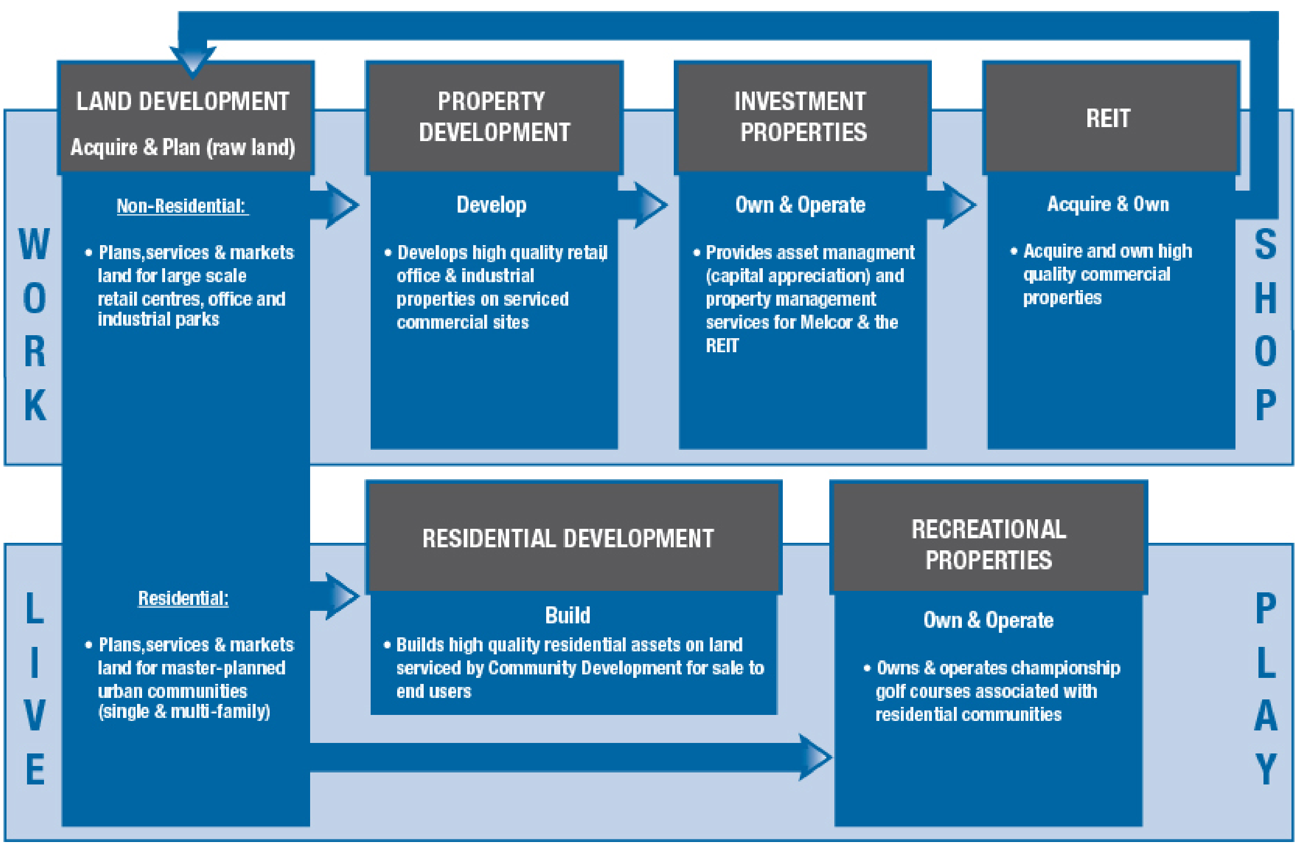
In addition, we own and operate championship golf courses associated with our residential communities in our fifth division, Recreational Properties. Melcor has $2.14 billion in assets.

The diagram below illustrates how each of our operating divisions complements one another to create and enhance value from our real estate assets.

In addition to extending the value of our asset base, these diversified operating divisions enable us to manage our business through real estate cycles (both general market conditions and the seasonality associated with construction and development) and diversify our revenue base.

Our headquarters are in Edmonton, Alberta, with regional offices across Alberta, in Kelowna, British Columbia, and in Phoenix, Arizona. Our developments span western Canada, and Colorado and Arizona in the US.

We have been publicly traded since 1968 (TSX:**MRD**).



Glossary of Acronyms

Common Acronyms	
FFO	funds from operations
GAAP	generally accepted accounting principles
G&A	general and administrative expense
GBV	gross book value
GLA	gross leasable area
IFRS	international financial reporting standards
NCIB	normal course issuer bid
NOI	net operating income
sf	square feet
SLR	straight-line rent
WABR	weighted average base rent

Second Quarter Highlights

Readers are reminded that established key performance measures may not have standardized meaning under GAAP. For further information on Melcor's non-standard measures, non-GAAP measures, operating measures and non-GAAP ratios, refer to the non-GAAP and non-standard measures section.

($000s except as noted)	**Three months ended June 30**			**Six months ended June 30**		
	2022	2021	Change %	**2022**	2021	Change %
Revenue	**51,044**	65,547	(22)	**104,350**	108,817	(4)
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Dividends	**0.14**	0.10	40	**0.28**	0.20	40

As at ($000s except share and per share amounts)	**30-Jun-2022**	31-Dec-2021	Change %
Total assets	**2,141,884**	2,113,927	1.3
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Occupancy in our investment properties (including the REIT) increased over year-end to 84.6% (Q4-2021: 84.2%). Our year-to-date retention was healthy at 86.8%. Strong leasing activity in our Property Development division continues to drive new development in commercial centres that complement and enhance our communities.

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Our golf courses saw a slight decrease in rounds played to date in 2022 primarily due to late opening dates at the courses. 2021 saw a record breaking number of rounds played as more golfers enjoyed a safe, outdoor activity during government restrictions.

FINANCIAL HIGHLIGHTS

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- On August 11, 2022 we declared a quarterly dividend of $0.15 per share, payable on September 30, 2022 to shareholders of record on September 15, 2022. The dividend is an eligible dividend for Canadian tax purposes.
- The REIT increased monthly distributions by 14% to $0.04 per unit compared to Q2-2021.
- The REIT declared the following distribution for period subsequent to the quarter:

Month	Record Date	Distribution Date	Distribution Amount
July 2022	July 29, 2022	August 15, 2022	$0.04 per Unit

REVENUE & MARGINS

Revenue was down 22% to $51.04 million compared to Q2-2021, and down 4% to $104.35 million year-to-date. The decrease in revenue was primarily in our Community Development division, which decreased 12% to $46.25 million year-to-date. Community Development revenue varies quarter over quarter due to the timing of lot sales and plan registrations which often happen in the later half of the year following the construction season. Revenue from single-family lot sales in Canada was $38.13 million year-to-date , down from $47.50 million in 2021. Community Development division revenue is highly dependent on the demand for new homes in the regions where we hold land, the timing of raw, commercial and multi-family land sales, and the timing of registration on single-family lots.

Our income-generating divisions (Investment Properties and the REIT) accounted for 55% of year-to-date revenue after intersegment eliminations compared with 53% of in 2021. Revenue from our income-generating divisions maintained a steady 59% gross margin year-to-date in 2022 and 2021 ($57.68 million and $57.62 million respectively). Our year-to date results continue to be impacted by lease termination fees received in both our REIT division ($1.00 million) and Investment Properties division ($1.94 million) which occurred in Q1-2021.

Consolidated gross margin increased to 51% in Q2-2022 (Q2-2021: 46%) and 49% year-to-date (2021: 48%). This increase is due to a shift in proportionate gross margin contributed from the income-generating divisions compared to comparative periods. Our IP and REIT divisions tend to generate higher margins than our Community Development division.

Net income is impacted by non-cash fair value adjustments on investment properties and REIT units, which can result in wide swings from period to period. These adjustments are primarily driven by market forces outside of Melcor's control. Management believes that FFO (discussion follows) is a more accurate reflection of our true operating performance.

Revenue and net income can also fluctuate significantly from quarter to quarter 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. The growth of our income-generating divisions offsets this cyclicality and has been a key diversification strategy over the past decade.

Funds From Operations (FFO)

FFO is a non-GAAP measure used in the real estate industry to measure operating performance. Refer to the Non-GAAP Measures section. We believe that FFO is an important measure of the performance of our real estate assets. FFO per share adjusts for certain non-cash items included in income such as fair value adjustments on investment properties and REIT units.

Below is a reconciliation of net income (loss) to FFO:

($000s)	Three months ended June 30		Six months ended June 30	
	2022	2021	**2022**	2021
Net income (loss) for the period	**25,908**	9,014	**28,378**	(5,019)
Amortization of operating lease incentives	**1,475**	1,809	**2,882**	3,820
Fair value adjustment on investment properties	**795**	(3,881)	**3,317**	(4,857)
Depreciation on property and equipment	**452**	420	**608**	598
Stock based compensation expense	**216**	242	**333**	508
Non-cash finance costs	**(3,820)**	3,008	**(5,292)**	4,282
Gain on sale of asset	**(8)**	(58)	**(8)**	(62)
Deferred income taxes	**318**	459	**137**	275
Fair value adjustment on REIT units	**(13,483)**	5,313	**(7,805)**	26,955
FFO[1]	**11,853**	16,326	**22,550**	26,500
FFO per share[2]	**0.36**	0.49	**0.69**	0.80

1 Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.

2 Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.

FFO was down 27% or $4.47 million in the quarter and 15% or $3.95 million year-to-date. This decrease correlates with the lower gross margin realized in both the second quarter and year-to-date which are down $4.14 million in the quarter and $1.55 million year to date. On a year-to-date basis, FFO was impacted by lease termination fees received in both REIT ($1.00 million) and Investment Properties ($1.94 million) division. Adjusting out these one time events, FFO was down $1.01 million primarily the result of increased consolidated G&A which was up $1.47 million over 2021. G&A increased in both the quarter and year to date, which negatively impacts FFO. Both year-to-date and quarterly G&A saw increases in professional fees which include legal, appraisal and other costs. We have also seen inflationary increases and have returned to pre-pandemic staffing levels and reversed a number of cost saving measures that were put in place.

As real estate development is long term in nature, comparison of any three-month period may not be as meaningful as full year results.

Divisional Results

Our business is comprised of five integrated and complementary operating divisions:

- **Community Development**, which acquires raw land for future commercial and residential community development;
- **Property Development**, which develops high-quality retail, office and industrial income-producing properties on serviced commercial sites developed by Community Development;
- **Investment Properties**, which manages and leases the commercial developments produced by the Property Development division and an externally purchased portfolio of assets, as well as assets held in the REIT;
- **The REIT**, which owns and holds 39 income-producing properties; and
- **Recreational Properties**, which owns and operates championship golf courses associated with Melcor residential communities.

Our Corporate division carries out support functions including accounting, treasury, information technology, administration, legal, marketing and human resources.

The following table summarize the results of our operating divisions:

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Three months June 30,		Three months June 30,		Three months June 30,		Three months June 30,		Three months June 30,	
($000s except as noted)	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Revenue	**20,258**	37,514	**3,796**	3,239	**9,959**	9,129	**18,154**	17,977	**4,649**	4,549
Portion of total revenue %	**36 %**	52 %	**7 %**	4 %	**18 %**	13 %	**32 %**	25 %	**8 %**	6 %
Cost of sales	**(12,175)**	(24,251)	**(3,700)**	(3,200)	**(4,085)**	(3,856)	**(7,530)**	(7,189)	**(1,933)**	(1,934)
Gross profit	**8,083**	13,263	**96**	39	**5,874**	5,273	**10,624**	10,788	**2,716**	2,615
Gross margin %[1]	**40 %**	35 %	**3 %**	1 %	**59 %**	58 %	**59 %**	60 %	**58 %**	57 %
Portion of total margin[1]	**30 %**	41 %	**– %**	– %	**21 %**	16 %	**39 %**	34 %	**10 %**	8 %
General and administrative expense	**(1,822)**	(1,688)	**(463)**	(447)	**(686)**	(545)	**(810)**	(696)	**(860)**	(842)
Fair value adjustment on investment properties	**—**	—	**82**	(1,211)	**3,932**	3,405	**(5,540)**	531	**–**	–
Gain on sale of assets	**—**	—	**—**	–	**–**	–	**–**	–	**8**	58
Interest income	**220**	123	**—**	–	**5**	–	**8**	6	**1**	–
Segment Earnings (Loss)	**6,481**	11,698	**(285)**	(1,619)	**9,125**	8,133	**4,282**	10,629	**1,865**	1,831

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Six months June 30		Six months June 30		Six months June 30		Six months June 30		Six months June 30	
($000s except as noted)	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Revenue	**46,251**	52,391	**3,814**	3,271	**20,563**	20,158	**37,119**	37,463	**4,762**	4,633
Portion of total revenue %	**41 %**	44 %	**3 %**	3 %	**18 %**	17 %	**33 %**	32 %	**4 %**	4 %
Cost of sales	**(28,248)**	(33,130)	**(3,700)**	(3,200)	**(8,350)**	(8,069)	**(15,539)**	(15,083)	**(2,377)**	(2,348)
Gross profit	**18,003**	19,261	**114**	71	**12,213**	12,089	**21,580**	22,380	**2,385**	2,285
Gross margin %[1]	**39 %**	37 %	**3 %**	2 %	**59 %**	60 %	**58 %**	60 %	**50 %**	49 %
Portion of total margin[1]	**33 %**	34 %	**– %**	– %	**22 %**	22 %	**40 %**	40 %	**4 %**	4 %
General and administrative expense	**(3,644)**	(3,251)	**(1,199)**	(913)	**(1,696)**	(1,162)	**(1,598)**	(1,499)	**(1,225)**	(1,176)
Fair value adjustment on investment properties	**—**	—	**410**	(1,139)	**3,714**	3,871	**(9,202)**	130	**–**	–
Gain on sale of assets	**—**	—	**—**	–	**–**	–	**–**	–	**8**	62
Interest income	**312**	263	**—**	–	**6**	1	**15**	13	**1**	–
Segment Earnings (Loss)	**14,671**	16,273	**(675)**	(1,981)	**14,237**	14,799	**10,795**	21,024	**1,169**	1,171

Divisional results are shown before intersegment eliminations and exclude corporate division.
1 Supplementary financial measure. Refer to Non-GAAP and Non-Standard Measures section for further details.

Community Development

Our Community Development division acquires raw land in strategic urban corridors and subsequently plans, develops and markets this land as builder-ready urban communities and large-scale commercial and industrial centres. This process includes identifying and evaluating land acquisitions, site planning, obtaining approvals from municipalities, developing the land, construction, marketing and ultimately selling the lots to home builders (for residential communities) or developers (for commercial/industrial centres). The division also sells sites to our Property Development division, which in turn develops commercial properties on the land.

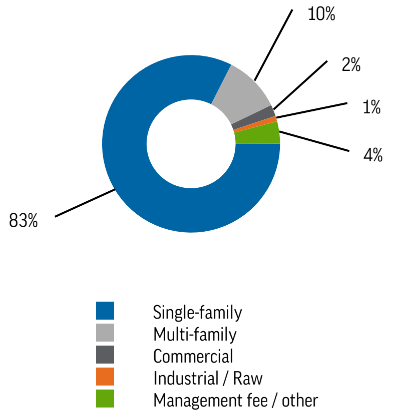
Master-planned mixed-use residential communities comprise the majority of Community Development's portfolio. We create efficient and sustainable urban communities by establishing an overall vision for each community and the amenities that will make it a desirable place to live. Residential lots and multi-family parcels are sold to home builders who share our passion for quality and with whom we have long-standing relationships.

Our focus is to grow market share and income levels by ensuring that we have an appropriate land mix and the right inventory in high demand areas in growing regions. We proactively manage our agreement receivables by maintaining an exclusive builder clientele and working closely with those builders.

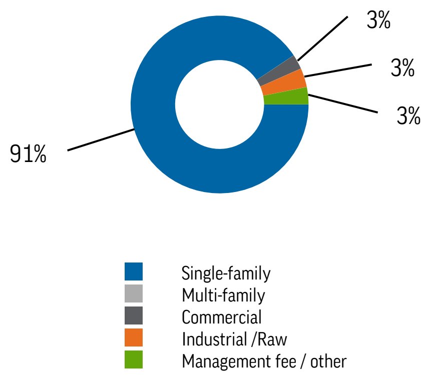
Sales Activity

REVENUE BY TYPE

Six months ended June 30, 2022



Six months ended June 30, 2021



Community Development division revenue is cyclical in nature and highly dependent on the demand for new homes in the regions where we hold land as well as the timing of single-family lot registrations, and the timing of raw, commercial, industrial and multi-family land sales. Because of this, community development revenue and income can fluctuate significantly from period to period.

Consolidated	Three months ended June 30		Six months ended June 30	
	2022	2021	**2022**	2021
Canada Sales data: (including joint ventures at 100%)				
Single-family sales (number of lots)	**116**	177	**404**	299
Gross average revenue per single-family lot ($)	**195,784**	248,482	**159,044**	220,147
Multi-family sales (acres)	**5.49**	–	**13.07**	–
Gross average revenue per multi-family acre ($)	**1,089,399**	–	**802,357**	–
Commercial sales (acres)	**1.91**	4.95	**1.91**	4.95
Gross average revenue per commercial land acre ($)	**512,304**	573,080	**512,304**	573,080
Industrial sales (acres)	**0.95**	1.29	**0.95**	1.29
Gross average revenue per industrial land acre ($)	**452,631**	325,581	**452,631**	325,581
Land sales to government bodies - raw, other (acres)	**0.50**	6.35	**0.50**	14.88
Gross average revenue per other land acre ($)	**40,000**	127,290	**40,000**	92,133
Other land sales - raw, other (acres)	**–**	1.57	**–**	1.57
Gross average revenue per other land acre ($)	**–**	31,357	**–**	31,357
Divisional results: (including joint ventures at Melcor's interest)[1]				
Revenue ($000s)	**20,258**	37,514	**46,251**	52,391
Earnings ($000s)	**6,481**	11,698	**14,671**	16,273

1. The number of lots in the table above includes joint ventures at 100%; however, revenue and earnings are reported at Melcor's interest.

Single-family lot sales decreased in the quarter with 116 single-family lots sold in Q2-2022 (Q2-2021: 177). Year-to-date, single-family lot sales increased to 404 compared to 299 in 2021. The Edmonton region contributed the largest volume of single-family lot sales in both Q2-2022 at 59 and 288 year-to-date (Q2-2021: 71; YTD-2021: 159).

We sold 5.49 acres of multi-family land for revenue of $1.79 million in the quarter and 13.07 acres for revenue of $4.82 million year-to-date; in the comparative period we had no multi-family sales. Included in the 13.07 acres year-to-date is 7.77 acres sold in the Edmonton region (Windermere at Glenridding and Rosenthal) and 5.30 acres sold in Lethbridge (Legacy Ridge).

Other land sales in the quarter include 1.91 acres of commercial land, 0.95 acres of industrial land and 0.50 acres of land to government bodies which contributed $1.41 million in revenue for our community development division.

Land sales, including commercial, multi-family and industrial sites, tend to vary quarter over quarter and can lead to lumpy revenue.

Our construction program has been active in 2022 thus far and we are planning to bring on 25 new phases in 19 communities before year-end. This would add a total of 1,195 new lots into inventory in 2022.

The gross margin for the community development division is strongly impacted by the mix of both product type and location of inventory sold. In 2022, gross margin has improved to 40% in Q2-2022 and 39% year-to-date (Q2-2021: 35%; 2021 YTD: 37%).

The average sale price on single-family lots in Canada decreased 38% from Q2-2021 primarily due to a larger volume of estate lot sales in the Kelowna region in 2021, pushing up the margin in the comparative period. Single-family lot sales cover a wide mix of product categories at various price points in 2022 thus far, from starter townhomes and duplexes to zero lot line homes.

No lots were sold in the USA in the current or comparative quarters, or year-to-date. We are actively marketing and working on final approvals for all of our land assets in the US. We intend to sell many of these projects as paper lots, which means we do not plan to develop them ourselves. While we may participate in strategic land purchase opportunities, our primary focus is on harvesting our current inventory.

We continue to develop new phases in communities where demand is evident. We remain committed to managing our risk in uncertain markets by ensuring that market demand is in place prior to proceeding with development, and by ensuring that our product mix is aligned with current market preferences.

Regional Sales Analysis

A summary of our lot and acre sales by region is as follows:

	Three months ended June 30, 2022			Three months ended June 30, 2021		
(including joint ventures at 100%)	**Single-family (Lots)**	**Multi-family (Acres)**	**Other (Acres)**	Single-family (Lots)	Multi-family (Acres)	Other (Acres)
Edmonton Region	**59**	**5.49**	**0.95**	71	–	1.29
Red Deer	**18**	**–**	**1.91**	34	–	9.77
Calgary Region	**12**	**–**	**–**	5	–	1.50
Lethbridge	**12**	**–**	**–**	6	–	–
Kelowna	**15**	**–**	**–**	61	–	1.57
United States	**–**	**–**		–	–	–
	116	**5.49**	**3.36**	177	–	14.13

	Six months ended June 30, 2022			Six months ended June 30, 2021		
(including joint ventures at 100%)	**Single-family (Lots)**	**Multi-family (Acres)**	**Other (Acres)**	Single-family (Lots)	Multi-family (Acres)	Other (Acres)
Edmonton Region	**288**	**7.77**	**0.95**	159	–	9.85
Red Deer	**26**	**–**	**1.91**	41	–	9.77
Calgary Region	**63**	**–**	**–**	20	–	1.50
Lethbridge	**12**	**5.30**	**–**	7	–	–
Kelowna	**15**	**–**	**–**	72	–	1.57
United States	**–**	**–**	**–**	–	–	–
	404	**13.07**	**3.36**	299	–	22.69

Single-family lot sales may vary significantly quarter over quarter as plan registrations typically occur in the latter half of the year. Year-to-date, lot sales were up in major Alberta regions including Edmonton, Calgary and Lethbridge.

Sales remain strong in all areas that have available inventory.

Inventory

A summary of the movement in our developed lot inventory is as follows:

	Six months ended June 30, 2022			Six months ended June 30, 2021		
(including joint ventures at 100%)	**Single-family (Lots)**	**Multi-family (Acres)**	**Other (Acres)**	Single-family (Lots)	Multi-family (Acres)	Other (Acres)
Open	**685**	**61.71**	**123.30**	652	59.00	126.09
Purchases	**–**	**–**	**–**	–	–	–
New developments	**255**	**5.46**	**1.91**	58	–	3.45
Redevelopment	**–**	**(3.34)**	**–**	–	–	–
Internal sales	**–**	**–**	**–**	–	–	(4.95)
Sales	**(404)**	**(13.04)**	**(2.86)**	(299)	–	(1.29)
	536	**50.79**	**122.35**	411	59.00	123.30

We strategically monitor inventory levels and bring on appropriately sized new phases where market demand dictates. In Q1-2022, we rezoned a 3.3 acre site into 36 new single-family lots in the Edmonton region to adjust our land holdings to changing market demands.

Raw land inventory

We acquire land in strategic growth corridors and maintain an inventory of land for future development in our primary markets. Raw land acquisitions are based on management's anticipation of market demand and development potential. The markets we operate in require significant infrastructure development and heavy capital investment, creating a barrier to entry. We continually investigate potential raw lands that complement our existing land holdings or provide attractive projects that are consistent with our overall strategy and management expertise. We acquire land when we find a good fit within these criteria.

To date in 2022 we have purchased two parcels of land totaling 13.0 acres in Buckeye, Arizona for $4.25 million (US $3.30 million). In the comparative period in 2021 we purchased 17.1 acres of land also in Buckeye, Arizona for $3.04 million (US $2.45 million).

We continue to monitor our land holdings and manage our cash position in order to capitalize on land acquisition opportunities as they arise.

Property Development

Our Property Development division develops, manages construction, markets and initially leases high-quality retail, office, industrial and multi-family residential revenue-producing properties on prime commercial sites purchased primarily from our Community Development division at fair market value. The division currently operates solely in Alberta.

The Property Development division supports our strategic objectives of asset diversification, income growth and value creation by constructing income-producing commercial developments.

The Property Development division increases the value of land assets and delivers long-term sustainable returns with high profile anchor tenants such as ATB, Bank of Montreal, Canadian Tire, Canadian Western Bank, CIBC, Home Depot, Loblaws, McDonald's, Recipe Unlimited, Rona, Royal Bank, Save-on Foods, Scotiabank, Shoppers Drug Mart, Staples, Starbucks, Subway, TD Canada Trust, Tim Hortons, Wal-Mart, Winners and many others.

Completed buildings are transferred from Property Development to Investment Properties at fair market value (based on third party appraisals) once construction and leasing activity nears completion. The transferred revenue and related costs are eliminated on consolidation and do not impact overall earnings.

Management fee revenue is comprised of fees paid by joint arrangement partners and is a percentage of total development costs incurred, which fluctuate period to period depending on the development stage of active projects.

The Property Development division realizes fair value gains resulting from development and leasing activities as construction is in progress. We generally expect to see the majority of fair value increases in the third and fourth quarters as construction and leasing are completed.

Division Highlights

($000s and at JV%, except as noted)	Three months ended	
	30-Jun-2022	30-Jun-2021
Total revenue	**3,796**	3,239
Revenue from property transfers	**3,700**	3,200
Management fees revenue	**96**	39
Margin (%) on property transfers	**11 %**	13 %
Square footage transferred (sf, at 100%)	**7,049**	6,517
Number of buildings transferred	**1**	1
Fair value gains on investment properties	**82**	(1,211)

($000s and at JV%, except as noted)	Six months ended	
	30-Jun-2022	30-Jun-2021
Total revenue	**3,814**	3,271
Revenue from property transfers	**3,700**	3,200
Management fees revenue	**114**	71
Margin (%) on property transfers	**11 %**	13 %
Square footage transferred (sf, at 100%)	**7,049**	6,517
Number of buildings transferred	**1**	1
Fair value gains on investment properties	**410**	(1,139)

In the quarter, Property Development completed and transferred one CRU (7,049 sf) for $3.70 million in our Jensen Lakes Crossing development. The neighbourhood shopping centre is expected to be 150,000 sf when built-out and is the anchor of our Jensen Lakes subdivision - the first lake community in St. Albert, AB (Edmonton region).

We have one CRU under construction in our Woodbend Market Development in Leduc, AB (Edmonton region) with an expected transfer date later this year and one CRU in our Chestermere Station development in Chestermere, AB (Calgary region) that is near completion and awaiting lease-up.

Continued development and leasing in these projects resulted in fair value gains of $0.08 million during the quarter. Management examines each project on a case by case basis and we continue to develop where we remain confident in our lessees prospects.

The Property Development division plans to develop in several projects throughout the remainder of the 2022 construction season as approvals are received.

The Property Development division currently has 62,336 sf under active development or completed and awaiting lease-up.

Regional Highlights

($000s and at JV%, except as noted)	Three months ended	
Fair value adjustments by region	**30-Jun-2022**	30-Jun-2021
Northern Alberta	**82**	52
Southern Alberta	**–**	(1,263)
	82	(1,211)

($000s and at JV%, except as noted)	Six months ended	
Fair value adjustments by region	**30-Jun-2022**	30-Jun-2021
Northern Alberta	**410**	52
Southern Alberta	**–**	(1,191)
	410	(1,139)

Northern Alberta: We recognized $0.08 million in fair value gains in the quarter and $0.41 million year-to-date due to ongoing development at Jensen Lakes Crossing (St. Albert, AB) and 10,783 sf of space completed and awaiting lease-up at Woodbend Market (Leduc, AB).

Southern Alberta: We have not recognized any fair value gains to date in 2022. We are actively working on leasing 12,464 sf of space at Chestermere Station (Chestermere, AB) and expect to complete and transfer this property later in the year. A further 39,089 sf is under construction at Clearview Market 2 (Red Deer, AB) and Greenwich (Calgary, AB).

Future development opportunities

We continually review our land inventory to identify parcels that are well suited for commercial development in the near future. We also work with municipalities to gain approvals to commence development on new projects.

The following tables illustrate our current and future project expectations:

Current Projects					
Project	Location	Type	Total SF[1]	Developed and transferred to IP or Sold[2]	SF Under Development or developed and awaiting lease up
The Village at Blackmud Creek	South Edmonton	*Regional business park*	550,000	198,905	–
Telford Industrial	Leduc	*Industrial Park*	500,000	143,118	—
West Henday Promenade	West Edmonton	*Regional mixed use centre*	515,300	116,300	–
Kingsview Market	Airdrie	*Regional shopping centre*	331,000	200,601	–
Kingsview Commercial	Airdrie	*Regional shopping centre*	33,500	33,500	–
Chestermere Station	Chestermere	*Neighbourhood shopping centre*	278,100	241,600	12,464
Clearview Market 2	Red Deer	*Neighbourhood shopping centre*	80,000	3,010	4,500
The District at North Deerfoot	North Calgary	*Regional business / industrial park*	1,285,000	586,633	–
Campsite Industrial	Spruce Grove	*Industrial Park*	170,000	13,700	–
The Shoppes at Jagare Ridge	South Edmonton	*Neighbourhood shopping centre*	105,000	105,000	–
Jensen Lakes Crossing	St. Albert	*Neighbourhood shopping centre*	150,000	102,762	–
Woodbend Market	Leduc	*Neighbourhood shopping centre*	140,000	3,000	10,783
Vista Ridge	Sylvan Lake	*Neighbourhood shopping centre*	20,000	–	–
Greenwich	West Calgary	*Regional mixed use centre*	325,000	62,557	34,589

1 Total SF represents the estimated total square footage remaining to be developed in the project. This includes sites that may be individually sold to retailers or end-users. For example, grocers usually buy land from Melcor and build/own their building. Total SF is periodically recalibrated based on current market conditions and changes to development plans.
2 Developed and transferred to IP or sold includes estimated sf of sites sold to retailers for development as described above.

Expected Future Projects					
Project	Location	Type	Total SF[1]	Ownership Interest	Expected Start (year)
Secord	Edmonton	*Neighbourhood shopping centre*	75,000	60%	2023
Laredo	Red Deer	*Neighbourhood shopping centre*	10,000	100%	2024+
Keystone Common	North Calgary	*Regional power centre*	350,000	100%	2024+
The Shoppes at Canyons	Lethbridge	*Neighbourhood shopping centre*	105,000	100%	2024+
Mattson	Edmonton	*Neighbourhood shopping centre*	75,000	50%	2024+
Rollyview	Leduc	*Neighbourhood shopping centre*	75,000	100%	2024+
Rosenthal	Edmonton	*Neighbourhood mixed use centre*	30,000	50%	2024+
West Pointe Marketplace	Lethbridge	*Regional power centre*	750,000	100%	2024+
Westview Commercial	West Calgary	*Neighbourhood shopping centre*	150,000	100%	2024+
Sora	South Calgary	*Neighbourhood shopping centre*	60,000	50%	2024+

1 Total SF represents the estimated total square footage remaining to be developed in the project. This includes sites that may be individually sold to retailers or end-users. For example, grocers usually buy land from Melcor and build/own their building. Total SF is periodically recalibrated based on current market conditions and changes to development plans.

Investment Properties

Our Investment Properties division manages and leases our portfolio of high-quality office, retail, industrial and residential properties, which are located across western Canada and the US, including properties owned by the REIT. Currently our Investment Properties division manages 4.77 million sf of income-producing commercial GLA and 587 residential units.

Our commercial property portfolio is primarily comprised of properties developed and transferred from our Property Development division in Alberta or acquired from third parties throughout our portfolio. Our goal is to improve the operating efficiency of each property for stable and growing cash flows, making them attractive assets for the REIT to purchase under its Right of First Offer (ROFO) option. In our management capacity, we are committed to efficient property management for optimized operating costs, occupancy and rental rates, providing the REIT and our joint venture partners with best in class management services. We focus on client retention through continuous customer contact and ongoing service evaluations. We also enhance our portfolio by upgrading the appearance, functionality and desirability of our properties, thereby increasing their rental potential.

Our US properties provide the division with a stable income stream that diversifies our exposure to the western Canadian resource sector. We also own 11 parking lots and other assets which are held for the long-term, providing current stable income and in some cases, future re-development potential.

Our portfolio under management has high occupancy rates with long-term tenancies from high-quality retail and commercial clients.

Operating results

The following table summarizes the division's GLA, occupancy and average base rent:

(as at, at JV%, except as noted)	**30-Jun-2022**	31-Dec-2021
Commercial properties GLA under management (sf, total)	**4,769,525**	4,753,285
Properties owned and managed (sf)	**1,117,612**	1,101,292
Properties managed (sf)	**3,651,913**	3,651,993
Residential units managed	**587**	593
Occupancy - CAD	**76.7 %**	76.1 %
Occupancy - US	**81.1 %**	75.4 %
Weighted Average Base Rent (per sf) - CAD	**$ 27.36**	$ 26.59
Weighted Average Base Rent (per sf) - US	**$ 20.52**	$ 20.67

The following table summarizes the division's key performance measures:

($000s and at JV %, except as noted)	Three months ended June 30		Six months ended June 30	
	2022	2021	**2022**	2021
Revenue (total)	**9,959**	9,129	**20,563**	20,158
Canadian properties	**4,895**	4,224	**10,065**	8,387
US properties	**3,831**	3,367	**7,452**	8,572
Management fees	**1,038**	1,425	**2,723**	2,980
Parking lots and other assets	**195**	113	**323**	219
Net operating income (NOI)[1]	**6,071**	5,273	**12,320**	12,389
Funds from operations[1]	**5,586**	5,021	**11,281**	11,736
Funds from operations per share[2]	**0.17**	0.15	**0.35**	0.35

1 *Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.*

2 *Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.*

The Investment Properties division's primary function is asset management and hands on property management.

Canadian properties

Our Canadian property portfolio continues to grow as properties are developed and transferred from Property Developments. The Property Development division has 62,336 sf of GLA under active construction or completed and awaiting lease up. The majority of transfers to Investment Properties typically occur in the latter part of the year due to construction timing and weather in our primary operating regions.

Occupancy on Canadian properties was up slightly over year-end at 76.7% (December 31, 2021 - 76.1%). Commercial weighted average base rents (WABR) was up 3% at $27.36 (December 31, 2021 - $26.59). Occupancy and WABR are impacted by transfers from Property Developments where tenants were on free-rent periods, and lower rates on new leasing. Leasing activities on our newer Property Development assets contributed to both the increase in WABR and occupancy to date in 2022. Certified measures on tenant spaces can also cause slight variances on occupancy as these are adjusted as tenants occupy space.

The following is a reconciliation of Canadian properties same asset NOI to NOI:

($000s and at JV%, except as noted)	Three months ended June 30		Six months ended June 30	
	2022	2021	**2022**	2021
Same asset NOI[1]	**2,652**	2,367	**5,213**	4,686
Properties transferred from PD	**760**	217	**1,447**	315
NOI[1]	**3,412**	2,584	**6,660**	5,001
Amortization of operating lease incentives	**(183)**	(142)	**(334)**	(315)
Straight-line rent adjustment	**132**	310	**484**	867
Gross profit	**3,361**	2,752	**6,810**	5,553

1 *Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.*

Gross profit was up $0.61 million in Q2-2022, an increase of 22% over Q2-2021. Year-to-date, gross profit was up $1.26 million or 23% over 2021. Q2-2022 NOI increased by 32% or $0.83 million over Q2-2021, with year-to-date NOI increasing by 33% over 2021.

Properties transferred from Property Development over the last 12 months, as well as those currently under development added $0.76 million in NOI in Q2-2022 and $1.45 million year-to-date (Q2-2021: $0.22 million; YTD 2021: $0.32 million).

On a same asset basis, NOI was up 12% in the quarter and 11% year-to-date due to improved occupancy and WABR.

US properties

Two events occurring had a significant impact on IP results, we define the terms and refer to them in the following discussion:

IP Early Termination event: In Q1-2021 revenue included a termination fee of $1.94 million (US$1.53 million) from a tenant who surrendered 19,000 sf of office space.

Dispositions: We sold 11 Brownstone units in Q3-2021, and 6 units in our Dakotas, Edge and Shores locations in Q2-2022. These dispositions are adjusted for in the same asset NOI calculations following.

Revenue on US properties was $3.83 million in Q2-2022 and $7.45 million year-to-date (Q2-2021: $3.37 million; YTD 2021: $8.57 million). Excluding the IP Early Termination event, revenue was up $0.82 million or 12%. Revenue and NOI were also impacted by dispositions in the trailing 12 months, which is adjusted for in the same asset NOI calculations in the following table.

Occupancy was up at 81.1% in Q2-2022 (Q2-2021: 75.9%). WABR remained fairly steady in the quarter at $20.52 per sf compared to $20.67 at year-end.

A reconciliation of US properties same asset NOI to gross profit is as follows:

($000s and at JV%, except as noted)	Three months ended June 30		Six months ended June 30	
	2022	2021	**2022**	2021
Same asset NOI[1]	**1,365**	1,319	**2,623**	4,210
Third party disposals	**–**	44	**–**	65
NOI[1]	**1,365**	1,363	**2,623**	4,275
Foreign currency translation	**378**	286	**713**	1,061
Amortization of operating lease incentives	**(210)**	(240)	**(424)**	(493)
Straight-line rent adjustment	**64**	(17)	**167**	(359)
Gross profit	**1,597**	1,392	**3,079**	4,484

1 *Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.*

Gross profit was up $0.21 million in Q2-2022 over the comparative period while year-to-date gross profit was down $1.41 million. Excluding the IP Early Termination event, year-to-date gross profit was up $0.54 million. Fluctuations in straight-line rent was the largest contributed to swings in gross profit and revenue in both the quarter and year-to-date.

Management fees & other

We earn management fees under the asset management and property management agreements with the REIT and under other joint venture agreements where Melcor acts as the manager.

Q2-2022 management fees were down $0.39 million or 27% comparative to Q2-2021, with a year-to-date decrease of $0.26 million or 9% over 2021. Management fees within our investment properties division includes payments received from REIT for management of the assets held within that division. The leasing fee agreement between Melcor and Melcor REIT was amended in Q2-2022, resulting in adjustments to year to date charges. These amounts are eliminated on consolidation.

Funds from Operations

FFO increased 11% or $0.57 million over Q2-2022 and decreased 4% or $0.46 million year-to-date. The IP Early Termination fee continues to skew year-to-date results in the comparative period as it directly increased other revenue and NOI. Excluding this event, year-to-date FFO was up $1.49 million or 15% as we have seen increases in both occupancy and WABR compared to the comparative periods.

REIT

The REIT owns 39 income-producing office, retail and industrial properties, comprising 3.22 million square feet of GLA at June 30, 2022. The REIT's portfolio has a diversified tenant profile - with a mix of national, regional and local tenants - operating in a variety of industries.

As at August 11, 2022 we have a controlling 55.4% interest in the REIT through ownership of all Class B LP Units (December 31, 2021 - 55.4%). As we have concluded that Melcor retains control of the REIT, we consolidate 100% of the REIT's revenues, expenses, assets and liabilities.

Early Termination event: In Q1-2021, we received $1.00 million for the early lease termination of a fast food chain which was included in other revenue, and impacts year-to-date comparative results.

Operating results

The following table summarizes the division's GLA, occupancy and average base rent:

(as at, at JV%, except as noted)	**30-Jun-2022**	31-Dec-2021
Commercial properties GLA under management (sf, total)	**3,216,141**	3,216,175
Fair value of portfolio[1]	**718,976**	723,729
Occupancy	**86.6 %**	87.1 %
Weighted average base rent (per sq. ft.)	**16.58**	16.73

1 Supplementary financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.

The following table summarizes the REIT's key performance measures:

($000s except as noted)	Three months ended June 30		Six months ended June 30	
	2022	2021	**2022**	2021
Rental revenue	**18,154**	17,977	**37,119**	37,463
NOI[1]	**11,391**	11,866	**23,246**	24,253
Same asset NOI[1] *(see calculation following)*	**11,391**	11,582	**23,246**	24,209
Fair value adjustment on investment properties	**(5,540)**	531	**(9,202)**	130
Funds from operations[1]	**10,728**	11,034	**21,804**	22,745
Funds from operations per share[2]	**0.33**	0.33	**0.67**	0.68

1 Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.
2 Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.

Rental revenue was up 1% compared to Q2-2021 and down 1% year-to-date. Excluding the Early Termination event, revenue was up 2% year-to-date. Swings in SLR partially offset the higher other revenue in the comparative period.

Other revenue includes parking, storage, lease amendment fees and other miscellaneous revenue that is ancillary to our business and fluctuates from period to period. Year-to-date other revenue was significantly impacted by $1.00 million fee for the Early Termination event received in Q1-2021.

To date in 2022, we have signed 273,154 sf of new and renewed leasing (including holdovers). In 2022, 10% of our portfolio (308,989 sf) is up for renewal, including month-to-month tenants.

As at June 30, 2022, we have retained 86% (219,710 sf) of expiring leases and have received commitment on an additional 78,549 sf of future renewals. Pockets of opportunity exist across our portfolio and in all asset classes.

Property taxes and utilities were up 1% in the quarter and year-to-date. Utility costs, including heating costs, fluctuate year over year depending on weather conditions in the regions where our assets are located. Property tax increases were the result of increased assessments over the prior year.

Operating expenses were up in both the quarter and year-to-date consistent with higher recovery revenue and rising utility costs, including power and gas/heat.

The following is a reconciliation of same asset NOI to net rental income:

($000s except as noted)	Three months ended June 30		Six months ended June 30	
	2022	2021	**2022**	2021
Same asset NOI[1]	**11,391**	11,582	**23,246**	24,209
NOI before adjustments	**11,391**	11,582	**23,246**	24,209
Amortization of operating lease incentives	**(906)**	(936)	**(1,807)**	(1,851)
Straight-line rent adjustment	**139**	142	**141**	22
Net rental income	**10,624**	**10,788**	**21,580**	**22,380**

1 Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.

NOI and same-asset NOI are non-standard metrics used in the real estate industry to measure the performance of investment properties. The IFRS measure most directly comparable to NOI and same-asset NOI is net income. Refer to the Non-GAAP and Non-Standard Measures section for reconciliation of NOI to net income.

NOI and same-asset NOI are the same for both the three and six months ended June 30, 2022 as no transactions were completed within the trailing 24 months. NOI was down 2% in Q2-2022 compared to Q2-2021, and down 4% year-to-date due to Early Termination event which inflated revenue and NOI in the comparative year-to-date results. Excluding the Early Termination event, year-to-date NOI up slightly over 2021.

Funds from operations

FFO is a non-GAAP financial measure used in the real estate industry to measure the operating performance of investment properties. Refer to the Non-GAAP and Non-standard Measures section for further information. FFO was down 3% in the second quarter due to lower NOI. Year-to-date FFO was down 4%. Excluding the Early Termination event, year-to-date FFO was stable.

Recreational Properties

Our Recreational Properties division owns and manages championship golf courses built to add value to Melcor residential communities.

The division's goal is to provide a high standard of service to our customers to maximize their enjoyment at our golf courses and to enhance divisional performance through revenue growth and cost savings.

Our golf courses aspire to achieve consistent course conditions and quality, and to be recognized as championship public golf courses with state of the art clubhouses that contribute to our ability to attract tournaments and events. Achieving these goals enables us to find the appropriate balance between the revenue levers of course fees, number of rounds played and customer satisfaction and enjoyment.

Revenue in the Recreational Properties division increased by 2% to $4.65 million in Q2-2022, and 3% to $4.76 million year-to-date.

Rounds of golf played to date in 2022 are down due to late opening dates at our golf courses. This is offset by efforts to focus on the clubhouses and food and beverage services, which is up 21% year-to-date over 2021.

A longer winter pushed opening dates to the end of April, comparative to early April opening dates in 2021.

	Ownership interest	Season opened 2022	Rounds of Golf
Managed by Melcor:			
Lewis Estates (Edmonton)	60%	**April 22**	**11,865**
The Links (Spruce Grove)	100%	**April 22**	**11,398**
Black Mountain (Kelowna)	100%	**March 30**	**16,554**
Managed by a Third Party:			
Jagare Ridge (Edmonton)	50%	**April 29**	**8,549**

	Ownership interest	Season opened 2021	Rounds of Golf
Managed by Melcor:			
Lewis Estates (Edmonton)	60%	April 2	15,267
The Links (Spruce Grove)	100%	April 2	14,737
Black Mountain (Kelowna)	100%	April 1	17,453
Managed by a Third Party:			
Jagare Ridge (Edmonton)	50%	April 14	12,031

General & Administrative Expense

G&A expenses in Q2-2022, were up 10% over Q2-2021, and up 15% year-to-date. Community Development G&A increased as a result of increased activity in the division and the reversal of various cost constraint initiatives put in place during the comparative period. Our Investment Properties G&A expense was up due to one time expenses and increased professional fees which include our 3rd party property appraisals, legal and accounting fees.

As a percentage of revenue, G&A was up slightly in the current quarter at 11% (Q2-2021 - 8%), and 11% year-to-date (YTD-2021 9%). Management continues to prudently monitor and manage controllable expenses.

Income Tax Expense

The statutory tax rate is 23% for the three and six months ended June 30, 2022 (2021 - 23%). Other items that impacted the effective tax rate include permanent differences related to revaluation adjustments on investment properties, distributions to REIT unitholders and the non-taxable portion of REIT income.

Liquidity & Capital Resources

The following table represents selected information as at June 30, 2022, compared with December 31, 2021.

As at ($000s except as noted)	**30-Jun-2022**	31-Dec-2021
Cash & cash equivalents	**72,164**	59,920
Restricted cash	**6,320**	4,824
Accounts receivable	**8,722**	10,097
Agreements receivable	**117,646**	127,739
Revolving credit facilities	**114,772**	87,050
Accounts payable and accrued liabilities	**44,696**	50,476
Total assets	**2,141,884**	2,113,927
Total liabilities	**1,007,150**	997,458
Debt to equity ratio[1]	**0.89**	0.89

1 Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.

We employ a range of strategies to maintain operations and facilitate growth. Our principal liquidity needs are to:

- Fund recurring expenses;
- Meet debt service requirements;
- Make dividend payments;
- Make distributions to unitholders of the REIT;
- Fund land development; and
- Fund investing activities such as the discretionary purchase of land inventory and/or investment property purchases.

We are able to meet our capital needs through a number of sources, including cash generated from operations, long and short-term borrowings from our syndicated credit facility, mortgage financings, convertible debentures, and the issuance of common shares or trust units. Our primary use of capital includes paying operating expenses, sustaining capital requirements on land and property development projects, completing real estate acquisitions, debt principal and interest payments, paying distributions on the REIT units and paying dividends when declared by our board of directors.

We believe that internally generated cash flows, supplemented by borrowings through our credit facility and mortgage financings, where required, will be sufficient to cover our normal operating and capital expenditures. We regularly review our credit facility limits and manage our capital requirements accordingly.

Financing & Liquidity

Total liquidity (cash and MDL & REIT line availability) was $151.49 million as at June 30, 2022 (December 31, 2021 - $126.66 million). As at June 30, 2022, our total general debt outstanding was $747.33 million compared to $716.91 million on December 31, 2021.

A summary of our debt is as follows:

As at ($000s)	**30-Jun-2022**	31-Dec-2021
Melcor - revolving credit facilities	**111,856**	87,050
REIT - revolving credit facility	**2,916**	–
Project specific financing	**44,267**	40,758
Secured vendor take back debt on land inventory	**8,434**	11,794
Debt on investment properties and golf course assets	**509,439**	506,382
REIT - convertible debentures	**70,421**	70,929
General debt	**747,333**	716,913

We are subject to financial covenants on our revolving credit facility. The covenants include a maximum debt to total capital ratio of 125%, a minimum debt service coverage ratio of 3.00, and a minimum net book value of shareholder's equity of $300.00 million. As at June 30, 2022 and throughout the period, we were in compliance with our financial covenants.

We are also subject to financial covenants on the REIT's $35.00 million revolving credit facility. The covenants include a maximum debt to total capital ratio of 60% (excluding convertible debenture), a minimum debt service coverage ratio of 1.25, and a minimum adjusted unitholders' equity of $140.00 million. As at June 30, 2022 and throughout the period, we were in compliance with our financial covenants.

These metrics are non-standard measures used to assess compliance with our lending agreements and are not specifically defined in the CPA Handbook or in IFRS. These non-standard measures may not be comparable to similar measures presented by other companies.

Sources & Uses of Cash

The following table summarizes our cash flow from (used in) operating, investing and financing activities, as reflected in our consolidated statement of cash flow:

($000s)	**Three months ended**	
	30-Jun-2022	**30-Jun-2021**
Cash flow from (used in) operating activities	**(2,145)**	14,481
Cash flow used in investing activities	**(581)**	(10,501)
Cash flow from in financing activities	**7,375**	318

($000s)	**Six months ended**	
	30-Jun-2022	**30-Jun-2021**
Cash flow from (used in) operating activities	**(1,157)**	35,700
Cash flow used in investing activities	**(2,256)**	(14,793)
Cash flow from (used in) financing activities	**15,121**	(4,443)

In Q2-2022, cash flow used in operating activities was $2.15 million (Q2-2021 cash inflow of $14.48 million), with year-to-date cash flow used in operating activities of $1.16 million, compared to cash inflow of $35.70 million in 2021. Cash flow from operating activities is significantly impacted by the timing of development and sales activity and settlement of working capital. Collections on agreements receivable were up $6.10 million compared to 2021 due to timing of sales and receipts.

Development activity was down spending $0.44 million in Q2-2022 (Q2-2021 $2.06 million), with year-to-date spending of $4.54 (2021 - $1.24 million).

Operating assets and liabilities tend to fluctuate year over year depending on the timing of payments due and receivable, which resulted in cash outflow of $13.70 million in Q2-2022 (Q2-2021 cash inflow of $10.49 million). On a year-to-date comparison operating assets saw year-to-date cash outflow of $18.22 million, with 2021 cash inflow of $11.70 million.

We also incurred $2.88 million in Q2-2022 ($4.60 million year-to-date) in tenant incentives and direct leasing costs in compared to Q2-2021 $1.90 million (2021 YTD: $4.13 million). Our restricted cash balance also went up $0.19 million related to deposits on US lot sales.

Cash flow used in investing activities was $0.58 million in Q2-2022 (Q2-2021 - $10.50 million), with year-to-date cash flow used in investing activity of $2.26 million (YTD 2021 - $14.79 million). We continue to develop commercial properties and invest in our portfolio, resulting in $2.90 million of cash outflow in the quarter (Q2-2021 - $8.88 million). Investments in properties under development (Property Development division) contributed $3.28 million year to date to the cash outflows (YTD-2021 - $11.58 million).

Cash flow from financing activities was $7.38 million in Q2-2022 compared to $0.32 million in the comparative 2021 period. Year-to-date cash flow from financing activity was $15.12 million compared to $4.44 million used in 2021 year-to-date period. Draws on the credit facility in Q2-2022 were $22.51 million (YTD: $27.72 million) compared with draws of $11.26 in Q2-2021 (YTD 2021 - $14.81 million). Draws on the credit facility were offset by net proceeds on our general debt of $1.52 million year to date in 2022 compared with net repayment of $11.79 million in 2021 year-to-date.

We paid a $0.14 per share dividend in Q2-2022 for a total of $4.57 million, with a year-to-date total of $9.17 million. This compares to Q2-2021 payments of $0.10 per share for a total of $3.31 million in Q2-2021 and $6.62 million year-to-date.

Share Data

Melcor has been a public company since 1968 and trades under the symbol “MRD” on the Toronto Stock Exchange. As at June 30, 2022 there were 32,623,921 common shares issued and outstanding, 369,500 options, and 260,591 restricted share units. Each stock option and restricted share unit is convertible to one common share upon exercise or exchange. There is only one class of common shares issued.

Off Balance Sheet Arrangements, Contractual Obligations, Business Environment & Risks, Critical Accounting Estimates, Changes in Accounting Policies

There are no material changes to the above titled sections at June 30, 2022 in comparison to the December 31, 2021 annual MD&A. Refer to note 3 of the condensed interim consolidated financial statements for changes in accounting policies.

Normal Course Issuer Bid

We have had active Normal Course Issuer Bids (NCIB) in place over the past year.

Melcor Developments Ltd:

On April 1, 2022 Melcor commenced a new 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 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. To date, we have purchased 209,593 common shares for cancellation under this plan.

Melcor has entered into an automatic share purchase plan (ASPP) agreement with a broker to allow shares to be purchased under the NCIB at times we would ordinarily not be active in the market due to regulatory restrictions or self-imposed blackout periods.

On April 1, 2021, Melcor commenced a Normal Course Issuer Bid (NCIB) which expired on March 31, 2022. Under this bid, we were allowed to purchase up to 1,654,553 common shares in total (approximately 5% of our issued and outstanding common shares) with a daily repurchase restriction of 3,781 common shares. We purchased 380,761 common shares for cancellation under this bid.

Melcor REIT:

Also, on April 1, 2021 the REIT commenced a normal course issuer bid ("2021 NCIB") which expired on March 31, 2022. Under this bid, the REIT was allowed 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 were allowed to be repurchased up to a maximum daily limit of 3,824. The price which the REIT will paid for trust units repurchased under the plan was the market price at the time of acquisition. The REIT purchased a total of 89,507 units for cancellation under this plan.

The REIT did not renew its NCIB.

Quarterly Results

The following table presents a summary of our unaudited operating results for the past eight quarters. This information should be read in conjunction with the related financial statements, notes to the financial statements and management's discussion and analysis.

	Three Months Ended							
($000s)	30-Jun-22	31-Mar-22	31-Dec-21	30-Sept-21	30-June-21	31-Mar-21	31-Dec-20	30-Sept-20
Revenue	**51,044**	53,306	150,598	56,213	65,547	43,270	80,947	73,051
Net income (loss)	**25,908**	2,470	44,769	16,561	9,014	(14,033)	(112)	7,526
FFO[1]	**11,853**	10,697	42,311	12,516	16,326	10,174	21,908	14,315
Shares outstanding (basic)	**32,623,921**	32,832,559	32,961,015	32,966,423	33,066,649	33,086,061	33,091,061	33,129,561
Per Share								
Basic earnings (loss)	**0.79**	0.08	1.35	0.50	0.27	(0.42)	(0.01)	0.23
Diluted earnings (loss)	**0.79**	0.07	1.35	0.50	0.27	(0.42)	(0.01)	0.23
FFO basic[2]	**0.36**	0.33	1.28	0.38	0.49	0.31	0.66	0.43
FFO diluted[2]	**0.36**	0.32	1.28	0.37	0.49	0.30	0.66	0.43
Dividends	**0.14**	0.14	0.12	0.12	0.10	0.10	0.08	0.08
Book value[2]	**34.78**	33.81	33.87	32.69	32.10	31.98	32.56	32.83

1 Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.
2 Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.

We have historically experienced variability in our results of operations from quarter to quarter due to the seasonal nature of the development business and the timing of plan registrations with the municipalities. We typically experience the highest sales in our Community Development division in the fourth quarter, as this is when the majority of plans register. The fair value gains in our Property Development division are also seasonally affected, as the majority of construction in Alberta takes place during the spring and summer months.

Subsequent Events

Refer to note 13 of the interim consolidated financial statements for information pertaining to subsequent events.

Internal Control over Financial Reporting & Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were material changes to internal control over financial reporting during the quarter ended June 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Melcor has continually responded to the COVID-19 pandemic by following the guidelines set forth by the Alberta government, at a minimum. As a result, the majority of Melcor's employee base was working from home wherever practical until mid-March 2022. The remote work arrangements have not impacted the design of our internal controls. We will continue to monitor and mitigate the risks associated with changes to our control environment.

Non-GAAP and Non-standard Measures

Throughout this MD&A, we refer to terms known as non-GAAP financial performance measures that are not specifically defined in the CPA Canada Handbook or in IFRS. These non-standard measures may not be comparable to similar measures presented by other companies. We use REALpac definitions for items such as FFO except that, for FFO, we include an adjustment for amortization of deferred financing fees, which is included in non-cash financing costs.

We believe that these non-GAAP and non-standard measures are useful in assisting investors in understanding components of our financial results.

The non-GAAP and non-standard terms that we refer to in this MD&A are defined below.

Net operating income (NOI): a non-GAAP financial measure defined as rental revenue, adjusted for amortization of tenant improvements and straight-line rent adjustments, less direct operating expenses as presented in the statement of income and comprehensive income. A reconciliation of NOI to the most comparable IFRS measure, net income, is shown in the below tables:

Investment Properties

($000s)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Segment Earnings	**9,125**	8,133	**14,237**	14,799
Fair value adjustment on investment properties	**(3,932)**	(3,405)	**(3,714)**	(3,871)
General and administrative expenses	**686**	545	**1,696**	1,162
Interest income	**(5)**	–	**(6)**	(1)
Amortization of operating lease incentives	**393**	293	**758**	808
Straight-line rent adjustment	**(196)**	(293)	**(651)**	(508)
Divisional NOI	**6,071**	5,273	**12,320**	12,389

REIT

($000s)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Segment Earnings	**4,282**	10,629	**10,795**	21,024
Fair value adjustment on investment properties	**5,540**	(531)	**9,202**	(130)
General and administrative expenses	**810**	696	**1,598**	1,499
Interest income	**(8)**	(6)	**(15)**	(13)
Amortization of operating lease incentives	**906**	936	**1,807**	1,851
Straight-line rent adjustment	**(139)**	142	**(141)**	22
Divisional NOI	**11,391**	11,866	**23,246**	24,253

Further discussion over NOI can be found in the Investment Property and REIT Divisional Results sections of the MD&A.

Same asset NOI: Same-asset NOI is a non-GAAP financial measure that compares the NOI on assets that have been owned for the entire current and comparative period and are classified for continuing use. Further discussion over same-asset NOI can be found in the Investment Property and REIT Divisional Results sections of the MD&A. This measure compares the NOI on assets that have been owned for the entire current and comparative period.

Fair value of investment properties: Fair value of investment properties in the REIT Divisional results section of the MD&A is a supplementary financial measure and is calculated as the sum of the balance sheet balances for investment properties and other assets (TI's and SLR).

Gross margin (%): Gross margin percent is a supplementary financial measure that indicates the relative efficiency with which we earn revenue. This ratio is calculated by dividing gross profit by revenue.

Net margin (%): Net margin percent is a supplementary financial measure that indicates the relative efficiency with which we earn income. This ratio is calculated by dividing net income by revenue.

Book value per share: Book value per share is a non-GAAP financial ratio and is calculated as shareholders' equity over number of common shares outstanding.

Debt to equity ratio: this is a non-GAAP financial ratio and is calculated as total debt over total equity. Refer to the Liquidity & Capital Resources section of the MD&A for further discussion.

Portion of total revenue: Portion of total revenue is a supplementary financial measure and is calculated as divisional revenue over total consolidated revenue. Refer to the Divisional Results section of the MD&A for further information.

Portion of total gross profit: Portion of total gross profit is a supplementary financial measure and is calculated as divisional gross profit over total consolidated gross profit. Refer to the Divisional Results section of the MD&A for further information.

Funds from operations (FFO): FFO is a non*GAAP financial measure and is defined as net income in accordance with IFRS, excluding (i) fair value adjustments on investment properties; (ii) gains (or losses) from sales of investment properties; (iii) amortization of tenant incentives; (iv) fair value adjustments, interest expense and other effects of redeemable units classified as liabilities; (v) acquisition costs expensed as a result of the purchase of a property being accounted for as a business combination; (vi) adjustment for amortization of deferred financing fees, which is included in non-cash financing costs and (vii) fair value adjustment on derivative instrument, after adjustments for equity accounted entities, joint ventures and non-controlling interests calculated to reflect FFO on the same basis as consolidated properties. Further discussion over FFO, including a reconciliation from net income, can be found in the Funds from Operations section of the MD&A and in the tables below:

Consolidated

($000s)	Three months ended June 30		Six months ended June 30	
	2022	2021	**2022**	2021
Net income (loss) for the period	**25,908**	9,014	**28,378**	(5,019)
Amortization of operating lease incentives	**1,475**	1,809	**2,882**	3,820
Fair value adjustment on investment properties	**795**	(3,881)	**3,317**	(4,857)
Depreciation on property and equipment	**452**	420	**608**	598
Stock based compensation expense	**216**	242	**333**	508
Non-cash finance costs	**(3,820)**	3,008	**(5,292)**	4,282
Gain on sale of asset	**(8)**	(58)	**(8)**	(62)
Deferred income taxes	**318**	459	**137**	275
Fair value adjustment on REIT units	**(13,483)**	5,313	**(7,805)**	26,955
FFO	**11,853**	16,326	**22,550**	26,500

Investment Properties

($000s)	Three months ended June 30		Six months ended June 30	
	2022	2021	**2022**	2021
Segment Earnings	**9,125**	8,133	**14,237**	14,799
Fair value adjustment on investment properties	**(3,932)**	(3,405)	**(3,714)**	(3,871)
Amortization of operating lease incentives	**393**	293	**758**	808
Divisional FFO	**5,586**	5,021	**11,281**	11,736

REIT

($000s)	Three months ended June 30		Six months ended June 30	
	2022	2021	**2022**	2021
Segment Earnings	**4,282**	10,629	**10,795**	21,024
Fair value adjustment on investment properties	**5,540**	(531)	**9,202**	(130)
Amortization of operating lease incentives	**906**	936	**1,807**	1,851
Divisional FFO	**10,728**	11,034	**21,804**	22,745

FFO per share: FFO per share is a non-GAAP financial ratio and is defined as FFO over basic weighted average common shares outstanding. Refer to the Funds From Operations section of the MD&A for further discussion.

MELCOR

Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2022

(Unaudited, in thousands of Canadian dollars)

Condensed Interim Consolidated Statement of Income (Loss)

Unaudited ($000s)	For the three months ended June 30, 2022	For the three months ended June 30, 2021	For the six months ended June 30, 2022	For the six months ended June 30, 2021
Revenue (note 7)	**51,044**	65,547	**104,350**	108,817
Cost of sales	**(25,189)**	(35,554)	**(53,309)**	(56,226)
Gross profit	**25,855**	29,993	**51,041**	52,591
General and administrative expense	**(5,468)**	(4,964)	**(11,321)**	(9,856)
Fair value adjustment on investment properties (note 5 and 11)	**(795)**	3,881	**(3,317)**	4,857
Adjustments related to REIT units (note 10)	**11,927**	(6,675)	**4,693**	(29,686)
Gain on sale of assets	**8**	58	**8**	62
Operating earnings	**31,527**	22,293	**41,104**	17,968
Interest income	**238**	137	**383**	293
Finance costs	**(2,309)**	(9,053)	**(6,912)**	(16,641)
Net finance costs	**(2,071)**	(8,916)	**(6,529)**	(16,348)
Income before income taxes	**29,456**	13,377	**34,575**	1,620
Income tax expense	**(3,548)**	(4,363)	**(6,197)**	(6,639)
Net income (loss) for the period	**25,908**	9,014	**28,378**	(5,019)
Income (loss) per share:				
Basic income (loss) per share	**0.79**	0.27	**0.87**	(0.15)
Diluted income (loss) per share	**0.79**	0.27	**0.86**	(0.15)

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 June 30, 2022	For the three months ended June 30, 2021	For the six months ended June 30, 2022	For the six months ended June 30, 2021
Net income (loss) for the period	**25,908**	9,014	**28,378**	(5,019)
Other comprehensive income				
Items that may be reclassified subsequently to net income:				
Currency translation differences	**6,127**	(2,347)	**3,646**	(4,575)
Comprehensive income (loss)	**32,035**	6,667	**32,024**	(9,594)

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Financial Position

Unaudited ($000s)	**June 30, 2022**	December 31, 2021
ASSETS		
Cash and cash equivalents	**72,164**	59,920
Restricted cash	**6,320**	4,824
Accounts receivable	**8,722**	10,097
Income taxes recoverable	**13,153**	323
Agreements receivable	**117,646**	127,739
Land inventory (note 4)	**727,906**	725,806
Investment properties (note 5 and 11)	**1,119,031**	1,118,805
Property and equipment	**12,684**	12,887
Other assets	**58,623**	53,526
Derivative financial asset (note 11)	**5,635**	—
	2,141,884	2,113,927
LIABILITIES		
Accounts payable and accrued liabilities	**44,696**	50,476
Income taxes payable	**7,054**	5,936
Provision for land development costs	**71,127**	79,517
General debt (note 6)	**747,333**	716,913
Deferred income tax liabilities	**56,494**	56,341
REIT units (note 10 and 11)	**80,446**	88,275
	1,007,150	997,458
SHAREHOLDERS' EQUITY		
Share capital (note 8)	**72,717**	73,304
Contributed surplus	**4,929**	4,727
Accumulated other comprehensive income (AOCI)	**21,504**	17,858
Retained earnings	**1,035,584**	1,020,580
	1,134,734	1,116,469
	2,141,884	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	—	—	—	28,378	28,378
Cumulative translation adjustment	—	—	3,646	—	3,646
Transactions with equity holders					
Dividends	—	—	—	(9,166)	(9,166)
Share repurchase (note 8)	(1,054)	—	—	(4,208)	(5,262)
Employee share options					
Value of services recognized	—	333	—	—	333
Share issuance	467	(131)	—	—	336
Balance at June 30, 2022	**72,717**	**4,929**	**21,504**	**1,035,584**	**1,134,734**

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	—	—	—	(5,019)	(5,019)
Cumulative translation adjustment	—	—	(4,575)	—	(4,575)
Transactions with equity holders					
Dividends	—	—	—	(6,617)	(6,617)
Share repurchase	(56)	—	—	(252)	(308)
Employee share options					
Value of services recognized	—	508	—	—	508
Share issuance	68	(68)	—	—	—
Balance at June 30, 2021	72,282	5,388	14,028	969,720	1,061,418

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 June 30, 2022	June 30, 2021	For the six months ended June 30, 2022	June 30, 2021
CASH FLOWS FROM (USED IN)				
OPERATING ACTIVITIES				
Net income (loss) for the period	**25,908**	9,014	**28,378**	(5,019)
Non cash items:				
Amortization of tenant incentives	**1,475**	1,809	**2,882**	3,820
Depreciation of property and equipment	**452**	420	**608**	598
Stock based compensation expense	**216**	242	**333**	508
Non-cash finance costs	**(3,820)**	3,008	**(5,292)**	4,282
Straight-line rent adjustment	**(323)**	(334)	**(697)**	(312)
Fair value adjustment on investment properties (note 5 and 11)	**795**	(3,881)	**3,317**	(4,857)
Fair value adjustment on REIT units (note 10 and 11)	**(13,483)**	5,313	**(7,805)**	26,955
Gain on sale of assets	**(8)**	(58)	**(8)**	(62)
Deferred income taxes	**318**	459	**137**	275
	11,530	15,992	**21,853**	26,188
Agreements receivable	**7,780**	(5,843)	**10,093**	3,991
Development activities	**(436)**	(2,056)	**(4,540)**	(1,240)
Purchase of land inventory (note 4)	**(4,247)**	(3,037)	**(4,247)**	(3,037)
Payment of tenant lease incentives and direct leasing costs	**(2,880)**	(1,898)	**(4,601)**	(4,133)
Change in restricted cash	**(191)**	834	**(1,496)**	2,227
Operating assets and liabilities	**(13,701)**	10,489	**(18,219)**	11,704
	(2,145)	14,481	**(1,157)**	35,700
INVESTING ACTIVITIES				
Purchase of investment properties (note 5)	**—**	(1,438)	**—**	(1,438)
Additions to investment properties (note 5)	**(2,904)**	(8,875)	**(4,465)**	(13,152)
Net proceeds from disposal of investment properties (note 5)	**2,607**	346	**2,607**	346
Purchase of property and equipment	**(297)**	(676)	**(411)**	(695)
Proceeds on disposal of property and equipment	**13**	142	**13**	146
	(581)	(10,501)	**(2,256)**	(14,793)
FINANCING ACTIVITIES				
Revolving credit facilities	**22,509**	11,264	**27,722**	14,806
Proceeds from general debt	**17,837**	30,574	**49,740**	59,343
Repayment of general debt	**(25,401)**	(37,655)	**(48,224)**	(71,134)
Repurchase of REIT units (note 10)	**—**	(305)	**(25)**	(533)
Dividends paid	**(4,570)**	(3,308)	**(9,166)**	(6,617)
Common shares repurchased (note 8)	**(3,336)**	(252)	**(5,262)**	(308)
Share capital issued	**336**	—	**336**	—
	7,375	318	**15,121**	(4,443)
FOREIGN EXCHANGE GAIN (LOSS) ON CASH HELD IN A FOREIGN CURRENCY	**1,143**	(62)	**536**	(117)
INCREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	**5,792**	4,236	**12,244**	16,347
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	**66,372**	41,312	**59,920**	29,201
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	**72,164**	45,548	**72,164**	45,548
Total income taxes paid	**8,391**	3,852	**11,752**	6,602
Total interest paid	**6,483**	7,167	**12,730**	14,358

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 June 30, 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 August 11, 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 August 11, 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

	June 30, 2022	December 31, 2021
Raw land held	**392,436**	387,598
Land under development	**169,030**	153,671
Developed land	**166,440**	184,537
	727,906	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)

June 30, 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.

During the six month period ended June 30, 2022, we purchased 13.01 acres of land in Buckeye, Arizona in the United States at a cost of $4,247 (USD$3,296) for cash. During the six month period ended June 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.

5. INVESTMENT PROPERTIES

Investment properties consists of the following:

	June 30, 2022	December 31, 2021
Investment properties	**1,071,221**	1,071,456
Properties under development	**47,810**	47,349
Total	**1,119,031**	1,118,805

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

			Six months ended June 30, 2022
	Investment Properties	**Properties under Development**	**Total**
Balance - beginning of period	1,071,456	47,349	**1,118,805**
Additions			
Direct leasing costs	532	250	**782**
Property improvements	1,183	—	**1,183**
Development costs	—	3,228	**3,228**
Capitalized borrowing costs	—	54	**54**
Disposals	(2,607)	—	**(2,607)**
Transfers	3,481	(3,481)	**—**
Fair value adjustment on investment properties	(3,727)	410	**(3,317)**
Other adjustments	(893)	—	**(893)**
Foreign currency translation (included in OCI)	1,796	—	**1,796**
Balance - end of period	**1,071,221**	**47,810**	**1,119,031**

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

			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.

During the six months ended June 30, 2022, we disposed of six residential units in Arizona for cash price of $2,607 (US$2,065) (Q2-2021 - $346 (US$278)) (net of transaction costs).

6. GENERAL DEBT

	June 30, 2022	December 31, 2021
Melcor - revolving credit facilities	**111,856**	87,050
REIT - revolving credit facility	**2,916**	—
Project specific financing	**44,267**	40,758
Secured vendor take back debt on land inventory	**8,434**	11,794
Debt on investment properties and golf course assets	**509,439**	506,382
REIT - convertible debentures	**70,421**	70,929
General debt	**747,333**	716,913

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

	Six months ended June 30, 2022	Year ended December 31, 2021
Balance - beginning of period	**40,758**	66,248
Cash movements		
Loan repayments	**(12,315)**	(30,056)
New project financing	**15,824**	4,605
Non-cash movements		
Foreign currency translation included in OCI	**—**	(39)
Balance - end of period	**44,267**	40,758

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

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

	Six months ended June 30, 2022	Year ended December 31, 2021
Balance - beginning of period	**11,794**	28,616
Cash movements		
Principal repayments		
Scheduled amortization on debt	**(3,360)**	(16,822)
Balance - end of period	**8,434**	11,794

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

	Six months ended June 30, 2022	Year ended December 31, 2021
Balance - beginning of period	**506,382**	490,801
Cash movements		
Principal repayments		
Scheduled amortization on debt	**(23,963)**	(17,076)
Mortgage repayments	**(8,586)**	(92,390)
New mortgages	**34,080**	127,984
Non-cash movements		
Deferred financing fees capitalized	**(730)**	(1,315)
Amortization of deferred financing fees	**690**	836
Change in derivative fair value swap	**1,200**	(2,005)
Foreign currency translation included in OCI	**366**	(453)
Balance - end of period	**509,439**	506,382

7. REVENUE

Total Revenues	**For the three months ended**		**For the six months ended**	
	June 30, 2022	June 30, 2021	**June 30, 2022**	June 30, 2021
Revenue from contracts	**32,117**	43,882	**59,160**	62,907
Revenue from other sources	**18,927**	21,665	**45,190**	45,910
	51,044	65,547	**104,350**	108,817

Timing of contract revenue recognition	**For the three months ended**		**For the six months ended**	
	June 30, 2022	June 30, 2021	**June 30, 2022**	June 30, 2021
At a point in time	**26,390**	39,788	**48,537**	54,171
Over time	**5,727**	4,094	**10,623**	8,736
	32,117	43,882	**59,160**	62,907

8. SHARE CAPITAL

Issued and outstanding common shares at June 30, 2022 are 32,623,921 (December 31, 2021 – 32,961,015). During the six months ended June 30, 2022, there were 8,534 options exercised (Q2-2021 – 1,412).

On April 1, 2022 Melcor commenced a Normal Course Issuer (NCIB) which allowed us to purchase up to 1,641,627 shares for cancellation, representing approximately 5% of the issued and outstanding shares up to a maximum daily limit of 1,281. The price, which Melcor paid for shares repurchased under the plan, were the market price at the time of acquisition. The NCIB ends one year from commencement on March 31, 2023.

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

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

During the six months ended June 30, 2022, there were 345,628 common shares purchased for cancellation by Melcor pursuant to the NCIB at a cost of $5,262 (December 31, 2021 - 244,726 common shares purchased at a cost of $3,350). Share capital was reduced by $1,054 and retained earnings reduced by $4,208.

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 six months ended**	
	June 30, 2022	June 30, 2021	**June 30, 2022**	June 30, 2021
United States	**3,942**	3,656	**7,850**	9,109
Canada	**47,102**	61,891	**96,500**	99,708
Total	**51,044**	65,547	**104,350**	108,817

Total Assets		
As at	**June 30, 2022**	December 31, 2021
United States	**275,900**	287,421
Canada	**1,865,984**	1,826,506
Total	**2,141,884**	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 June 30, 2022	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue	20,258	3,796	9,959	18,154	4,649	—	**56,816**	(5,772)	**51,044**
Cost of sales	(12,175)	(3,700)	(4,085)	(7,530)	(1,933)	—	**(29,423)**	4,234	**(25,189)**
Gross profit	8,083	96	5,874	10,624	2,716	—	**27,393**	(1,538)	**25,855**
General and administrative expense	(1,822)	(463)	(686)	(810)	(860)	(1,634)	**(6,275)**	807	**(5,468)**
Fair value adjustment on investment properties	—	82	3,932	(5,540)	—	—	**(1,526)**	731	**(795)**
Gain on sale of assets	—	—	—	—	8	—	**8**	—	**8**
Interest income	220	—	5	8	1	4	**238**	—	**238**
Segment earnings (loss)	6,481	(285)	9,125	4,282	1,865	(1,630)	**19,838**	—	**19,838**
Finance costs									**(2,309)**
Adjustments related to REIT units									**11,927**
Income before tax									**29,456**
Income tax expense									**(3,548)**
Net income for the period									**25,908**

For the three months ended June 30, 2021	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue	37,514	3,239	9,129	17,977	4,549	—	**72,408**	(6,861)	**65,547**
Cost of sales	(24,251)	(3,200)	(3,856)	(7,189)	(1,934)	—	**(40,430)**	4,876	**(35,554)**
Gross profit	13,263	39	5,273	10,788	2,615	—	**31,978**	(1,985)	**29,993**
General and administrative expense	(1,688)	(447)	(545)	(696)	(842)	(1,575)	**(5,793)**	829	**(4,964)**
Fair value adjustment on investment properties	—	(1,211)	3,405	531	—	—	**2,725**	1,156	**3,881**
Gain on sale of assets	—	—	—	—	58	—	**58**	—	**58**
Interest income	123	—	—	6	—	8	**137**	—	**137**
Segment earnings (loss)	11,698	(1,619)	8,133	10,629	1,831	(1,567)	**29,105**	—	**29,105**
Finance costs									**(9,053)**
Adjustments related to REIT units									**(6,675)**
Income before tax									**13,377**
Income tax expense									**(4,363)**
Net Income for the period									**9,014**

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

For the six months ended June 30, 2022	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue	46,251	3,814	20,563	37,119	4,762	—	**112,509**	(8,159)	**104,350**
Cost of sales	(28,248)	(3,700)	(8,350)	(15,539)	(2,377)	—	**(58,214)**	4,905	**(53,309)**
Gross Profit	18,003	114	12,213	21,580	2,385	—	**54,295**	(3,254)	**51,041**
General and administrative expense	(3,644)	(1,199)	(1,696)	(1,598)	(1,225)	(3,452)	**(12,814)**	1,493	**(11,321)**
Fair value adjustment on investment properties	—	410	3,714	(9,202)	—	—	**(5,078)**	1,761	**(3,317)**
Gain on sale of assets	—	—	—	—	8	—	**8**	—	**8**
Interest Income	312	—	6	15	1	49	**383**	—	**383**
Segment earnings (loss)	14,671	(675)	14,237	10,795	1,169	(3,403)	**36,794**	—	**36,794**
Finance Costs									**(6,912)**
Adjustments related to REIT units									**4,693**
Income before tax									**34,575**
Income tax expense									**(6,197)**
Net Income									**28,378**

For the six months ended June 30, 2021	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Segment revenue	52,391	3,271	20,158	37,463	4,633	—	**117,916**	(9,099)	**108,817**
Cost of sales	(33,130)	(3,200)	(8,069)	(15,083)	(2,348)	—	**(61,830)**	5,604	**(56,226)**
Gross profit	19,261	71	12,089	22,380	2,285	—	**56,086**	(3,495)	**52,591**
General and administrative expense	(3,251)	(913)	(1,162)	(1,499)	(1,176)	(3,355)	**(11,356)**	1,500	**(9,856)**
Fair value adjustment on investment properties	—	(1,139)	3,871	130	—	—	**2,862**	1,995	**4,857**
Gain on sale of assets	—	—	—	—	62	—	**62**	—	**62**
Interest income	263	—	1	13	—	16	**293**	—	**293**
Segment earnings (loss)	16,273	(1,981)	14,799	21,024	1,171	(3,339)	**47,947**	—	**47,947**
Finance costs									**(16,641)**
Adjustments related to REIT units									**(29,686)**
Loss before tax									**1,620**
Income tax expense									**(6,639)**
Net loss for the period									**(5,019)**

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 June 30, 2022 the REIT units had a fair value of $80,446. We recorded adjustments related to REIT units for the three and six months ended June 30, 2022 of $11,927 and $4,693 (June 30, 2021 - $6,675 and $29,686). 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.

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

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.

Prior to the NCIB expiration for the six months ended June 30, 2022, a total of 3,824 units (2021 - 85,683) was purchased for cancellation at a cost of $25 (2021 - $533), 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 six months ended	
	June 30, 2022	June 30, 2021	**June 30, 2022**	June 30, 2021
Fair value adjustment on REIT units (note 11)	**13,483**	(5,313)	**7,805**	(26,955)
Distributions to REIT unitholders	**(1,556)**	(1,362)	**(3,112)**	(2,731)
Adjustments related to REIT units	**11,927**	(6,675)	**4,693**	(29,686)

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

As at	**June 30, 2022**	December 31, 2021
Assets	**730,290**	735,668
Liabilities	**456,257**	460,344
Net assets	**274,033**	275,324
Cost of NCI	**103,959**	103,959
Fair value of NCI	**80,446**	88,275

	For the three months ended		For the six months ended	
	June 30, 2022	June 30, 2021	**June 30, 2022**	June 30, 2021
Rental revenue	**18,154**	17,977	**37,119**	37,463
Net income (loss) and comprehensive income (loss)	**18,059**	(4,619)	**11,521**	(29,058)
Cash flows from operating activities	**2,430**	1,999	**6,723**	7,792
Cash flows used in investing activities	**(700)**	(987)	**(917)**	(1,166)
Cash flows (used in) from in financing activities, before distributions to REIT unitholders	**(3,495)**	539	**(5,398)**	(3,052)
Cash flows used in financing activities - cash distributions to REIT unitholders	**(1,556)**	(1,362)	**(3,112)**	(2,666)
Net (decrease) increase in cash and cash equivalents	**(3,321)**	189	**(2,704)**	908

(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.

					June 30, 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**	**1,119,031**	**—**	**1,119,031**	**1,119,031**	1,118,805	1,118,805
Financial liabilities							
General debt, excluding convertible debentures and derivative financial liability	**Level 3**	**—**	**676,912**	**676,912**	**655,432**	646,613	659,699
Convertible debentures	**Level 2**	**—**	**66,323**	**66,323**	**64,877**	65,637	63,683
Derivative financial liability							
Conversion features on convertible debentures	**Level 3**	**4,098**	**—**	**4,098**	**4,098**	5,408	5,408
REIT units	**Level 1**	**80,446**	**—**	**80,446**	**80,446**	88,275	88,275
Derivative financial asset							
Interest rate swaps	**Level 3**	**5,635**	**—**	**5,635**	**5,635**	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. For the six months ended June 30, 2022 25 legal phases included in investment properties (of 93 legal phases) with a fair value of $285,900 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 $3,317 (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 June 30, 2022 is $1,395 (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**		
June 30, 2022	**Min**	**Max**	**Weighted Average**	**Min**	**Max**	**Weighted Average**
Capitalization rate	**5.25%**	**10.00%**	**6.78%**	**6.00%**	**6.25%**	**6.17%**
Terminal capitalization rate	**5.75%**	**8.50%**	**6.80%**	**6.25%**	**6.50%**	**6.42%**
Discount rate	**6.25%**	**9.50%**	**7.72%**	**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 $69,000 (December 31, 2021 - $65,900). A decrease in capitalization rates by 50 basis points would increase the fair value and carrying amount of investment properties by $79,900 (December 31, 2021 - $76,600). The economic environment continues to remain uncertain with both rising interest rates and increased inflation impacting valuations. The estimates used in our valuation models are 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 assets and liabilities

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

The fair value of the interest rate swaps are calculated as the net present value of the future cash flows expected to arise on the variable and fixed portion, determined using applicable yield curves at the measurement date. As at June 30, 2022, the fair value of interest rate swap contracts was $5,635 (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 June 30, 2022 the fair value of the conversion features on our convertible debentures was $4,098 liability (December 31, 2021 - $5,408 liability and $116 asset). It is currently not possible to estimate the long-term impact of rising interest rates and inflation on the economy, including the equity 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 June 30, 2022 the fair value of the REIT units was $80,446, resulting in a fair value gain during the six months ended of $7,805 (June 30, 2021 - loss of $26,955) in the statement of income and comprehensive income for the period ended ended June 30, 2022 (note 10). It is currently not possible to estimate the long-term impact of rising interest rates and inflation 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

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 $642 (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. *Interest Rate 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 $2,368 (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

Distributions on REIT trust units

The REIT declared the following distributions:

Month	Record Date	Distribution Date	Distribution Amount
July 2022	July 29, 2022	August 15, 2022	$0.04 per Unit

Dividends declared

On August 11, 2022 our board of directors declared a dividend of $0.15 per share payable on September 30, 2022 to shareholders of record on September 15, 2022.