Management's Discussion & Analysis

March 16, 2023

The following discussion of Melcor's financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 2022.

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

The statement of financial position is presented without reference to current assets or current liabilities. The operating cycle of an entity involved in real estate investment and development is normally considered to be longer than one year. Thus, the concept of current assets and current liabilities is not considered relevant and there is no need to segregate the balance sheet to disclose assets or liabilities that are expected to be settled within the immediately following year.

Melcor's Board of Directors, on the recommendation of the Audit Committee, approved the content of this MD&A on March 16, 2023.

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".

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 or courses of action and include future-oriented financial information.

This MD&A 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. Forward-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2023 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 Risks in our annual 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 Melcor or on its behalf.

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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, business and industrial parks, office buildings, retail commercial centres and golf courses.

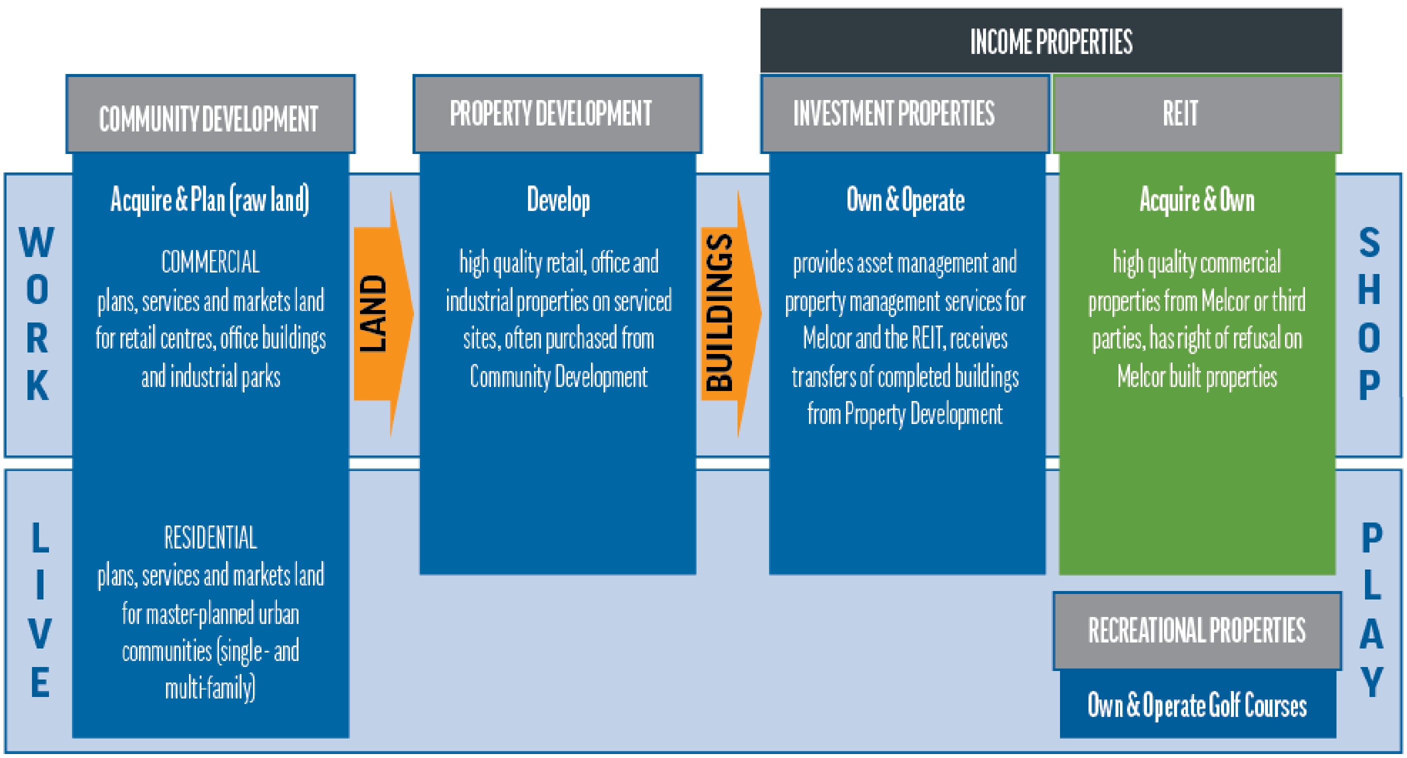
Since 1923, our focus has been the business of real estate. We've built over 170 communities and commercial projects across western Canada since the 1950s and have helped to shape much of Alberta's landscape. We manage 4.80 million square feet (sf) in commercial real estate assets and 476 residential rental units. We have been a public company since 1968 (TSX:MRD).

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

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

1. Community Development: acquiring raw land and planning residential communities and commercial developments
2. Property Development: project managing development, leasing and construction of commercial properties (Property Development)
3. Income Properties: operating a portfolio of commercial and residential properties, focused on property improvements and capital appreciation of owned properties and property and asset management of REIT owned properties (comprised of Investment Properties and the REIT divisions)
4. Recreational Properties: owning and operating championship golf courses associated with our residential communities.

Melcor has $2.17 billion in assets. The following diagram 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 segments 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.

While building a sustainable business, we also focus on building sustainable communities by sharing our time and resources to make them stronger. We are proud to support a number of worthy causes and charities that enrich the communities where we operate.

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.

Our history and our culture form our strong foundation: the authentic values of a family-run organization building deep relationships with our clients, our business partners and our employees.

Strategy

Our fundamental goals are to:

- protect shareholder investment through prudent risk management and careful stewardship of company assets
- grow shareholder value by achieving strong operating performance and return on invested capital
- distribute profit to shareholders through a reliable dividend
- promote a strong and healthy corporate culture by taking care of our exceptional team
- build strong and positive relationships with our stakeholders

Our operating focus is to deliver high quality products and industry-leading value in each of our segments: developing master-planned communities, constructing and leasing commercial properties, managing our income-generating portfolio and operating championship golf courses.

We balance our capacity to participate in strategic growth opportunities with sustaining and improving our existing businesses.

Community Development: Cautious Development

Rising interest rates through 2022 contributed to slightly lower demand for new homes coming off of the record sales achieved in 2021.

We continue to manage inventory levels to meet demand.

Community Development division had an active construction season in all regions in 2022; we developed 1,091 new single-family lots and sold 1,060, leaving modest inventory levels coming into 2023.

Momentum throughout the year was strong in new communities launched over the past few years as well as our more established communities. In-migration from other provinces into Alberta continues as a notable trend.

The new home market in 2023 is more balanced across all price points, a shift from the past few years where the demand centered on more affordable product such as townhomes, duplex, zero lot line or traditional single family with secondary suites to assist with mortgage qualifications. We developed 130 and sold 113 estate lots, up from 90 estate lots sold in 2021.

The US housing market contracted more significantly in response to rising interest rates, and no sales were completed in 2022. We developed 234 single-family lots in Harmony (Denver, CA area) to replenish inventory.

Property Development: Strength in Neighbourhood Shopping Centres

Commercial property development, particularly neighbourhood shopping centres, continues at a solid pace as pre-lease thresholds are met. With a focus on local services – bank, coffee, daycare, dental/medical, gas, grocer, pharmacy, restaurants and fast food – these retail hubs face less competition from online shopping options. The Property Development team built and transferred 5 retail buildings (36,846 sf) located in 4 neighbourhood shopping centres throughout Alberta.

Revenue Diversification Strategies Paying Off

Our geographic and revenue source diversification strategies have served to offset the cyclical nature of Canadian residential development.

Our Income Property segment manages 4.80 million sf of income-generating assets, providing stable results throughout the year to smooth out the seasonal nature of construction related divisions. This represents growth of 23% in GLA over the past 5 years, with Investment Properties and the REIT comprising 43% of total revenue and 60% of total gross profit.

We have 99 years of experience in Alberta's cyclical economy. Throughout this time, we have managed through many downturns and have learned to not only weather the cycle, but to make our business stronger by recognizing and participating in opportunities while balancing our risk and exposure. All economic indicators point to upward momentum in Alberta's economy and we are well-positioned to participate in opportunities while also maintaining our conservative approach to real estate development.

Pillars of our Strategy

The following diagram illustrates the pillars of our strategy, which are to **grow** by acquiring strategic land and property and exploring strategic opportunities to increase capital resources; to **sustain** by remaining disciplined in monitoring and managing our key performance drivers and our reputation; to **diversify** by developing real estate assets for revenue, earnings and cash flow growth and by increasing our presence in the United States. **People** are the heart of our strategy, and we commit to protecting our culture and values and taking care of our exceptional team.

Assets

Our raw and developed assets and conservative approach to debt place Melcor in a strong position to achieve our growth strategy. We will continue to develop our real estate assets to support current and future revenue, earnings and cash flow growth.

Division	Assets	Strategy
Community Development	9,857 acres of raw land inventory in strategic growth corridors	Maintain right mix of inventory, available at the right time to meet market needs Increase market share by maintaining best in class design and community amenities
Property Development	Prospects for 4,408,740 sf of new development based on existing plans Completed and transferred 36,846 sf (5 buildings) in 2022 61,850 sf is currently under construction.	Plan, build and lease retail, office, industrial and multi-family residential real estate projects Maintain 3-5 year inventory of developable assets Maximize value of existing assets through vertical development or re-development
Investment Properties & REIT	4,804,248 sf of commercial property and 476 residential units under management, diversified across 4 asset classes in 3 provinces and 2 states As Property Development projects are completed, our GLA continues to grow.	Improve existing assets with value-added investments to achieve higher occupancy rates and increase rent per square foot Provide consistent, high-quality service to tenants Seek strategic acquisitions or dispositions of assets
Recreational Properties	4 championship golf courses.	Maintain strong reputation through consistent course quality and player experience Grow revenue from food and beverage operations

Diversification

Our operating divisions diversify our revenue streams in a number of ways:

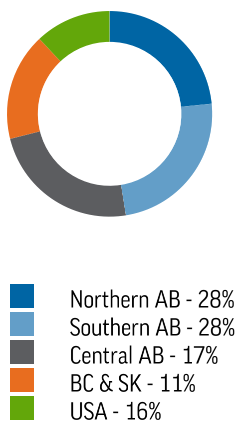
- The mix of land and property types held (residential, office, retail, industrial)
- The regional profile of our assets (Alberta, Saskatchewan, BC & western/southwestern US)
- The type of revenue each asset generates (including steady revenue from income-producing properties and revenue that fluctuates by season and by market demand)

Community Development is one of our most geographically diverse divisions and invests in Canada and the US to build inventory for future development. This division holds land for future residential or commercial development in strategic growth corridors. It is diversified through the life cycle phase of different land parcels: a balance is struck between lands that are immediately developable ('shovel ready'), those that will be ready for development in 3 to 5 years, and those with a development horizon of 5+ years.

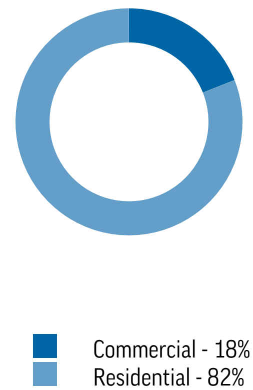
Melcor has been planning and developing innovative communities since the 1950s. We have developed over 40,000 lots in over 150 communities across Alberta, BC and the United States. We currently have 9,857 acres of land for future development (at Melcor's percentage).

LAND INVENTORY

Inventory by Region



Inventory by Land Use



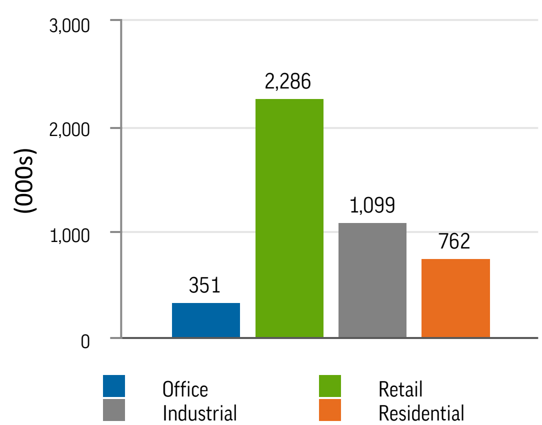
Property Development adds value to raw land by developing retail, office, industrial and multi-family residential properties in Alberta.

The Property Development division supports Melcor's strategic objectives of asset diversification, income growth and value creation by constructing income-producing developments, primarily on land acquired from the Community Development division. On completion, the properties are transferred to Investment Properties, thus completing the value chain from raw land to annuity income. The REIT has the right of first offer to purchase completed and leased properties, enabling us to monetize the value created while retaining a long-term controlling interest in the asset.

Melcor has been developing commercial properties since the 1970s and has built over 2.5 million sf. Our future development pipeline is 4.4 million sf based on current development plans.

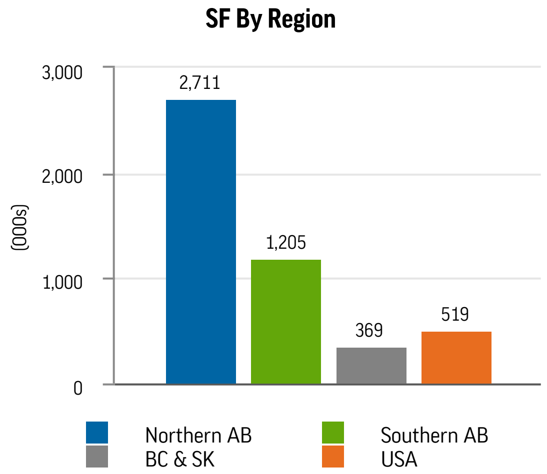
PROPERTY DEVELOPMENT

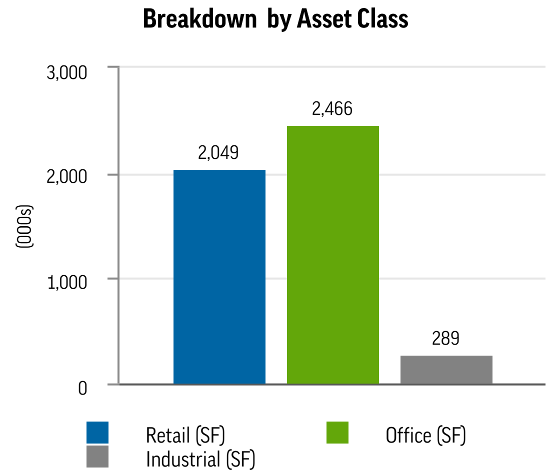
Future Development SF



Investment Properties manages 4.80 million sf of geographically diverse income-producing assets (including those owned by the REIT) to provide consistent annuity income and cash flow. Our total portfolio under management is diversified across asset class, property mix and region. The regional asset mix is primarily commercial in western Canada, with the majority of these assets owned by the REIT. Our US portfolio is a blend of residential and commercial properties. The goal of the Investment Properties division is to provide exceptional customer care to retain tenants for the long term. We continually enhance and improve existing properties through capital investment to maximize occupancy, rental rates and tenant retention and prepare properties for vend-in to the REIT.

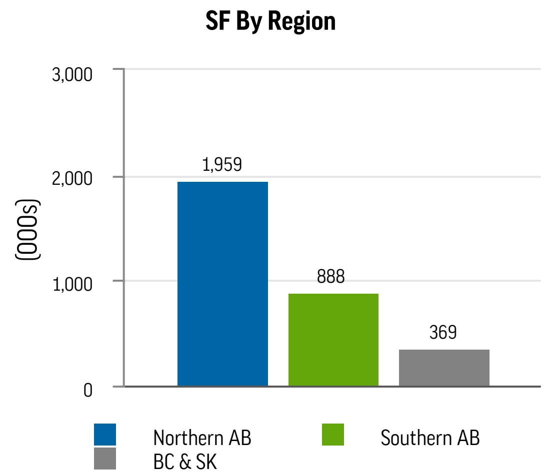
TOTAL GLA MANAGED

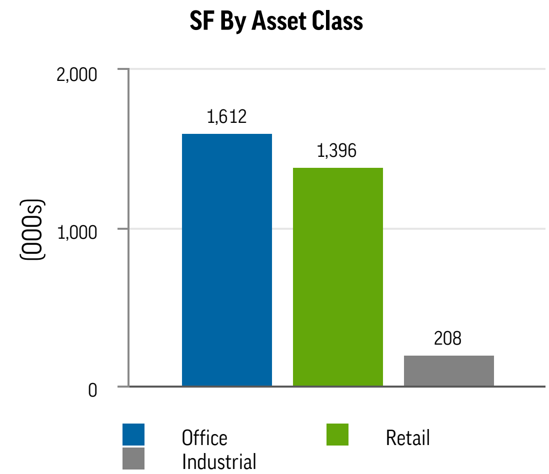




The REIT owns 3.22 million sf of income-producing assets that are managed by the Investment Properties division. The REIT is a vehicle for realizing the value created throughout the Melcor value chain as raw land is developed for commercial use (Community Development) and commercial properties are built (Property Development) or redeveloped (Investment Properties) and sold to the REIT. The REIT will continue to seek and execute acquisitions to grow its portfolio, both through the Property Development pipeline and third party acquisitions. To date, the REIT has acquired over 1.0 million sf from Melcor and 745,000 sf from third parties.

TOTAL GLA OWNED BY THE REIT





Key Performance Drivers

A High Performance Team

A strong and engaged workforce is a key component of achieving our growth objectives. Our team fuels our success by profitably managing residential and commercial development, continually moving future projects through the municipal approval process, managing our assets and ensuring tenant satisfaction, and developing strong relationships with our suppliers, contractors, builders, tenants and other stakeholders. The average tenure of our team is 9.80 years and we have 23 team members (9 active) on Melcor's Quarter Century Club.

Employees by Division

Our culture is based on 100 years of strong core values. We offer rewarding career development opportunities, competitive compensation and benefits, and employer-matched RRSP and employee share purchase programs (ESPP). Managers and the executive team also receive restricted share units (RSUs).

Real Estate Inventory

Our existing real estate inventory puts us in a good position to continue to grow our business as market demand dictates. We have:

- 9,857 acres of developable land
- 4,804,248 sf of leasable commercial property and 476 residential units under management in 3 provinces and 2 states
- Potential to develop over 4.4 million sf of new commercial property (based on current planned development)

We create shareholder value out of our land assets by developing them into revenue and income earning properties.

Inventory management is a critical component of our future success. Land development is a capital-intensive process requiring long time horizons to obtain permits and development agreements. As such, we closely monitor the fundamentals of the regions where we operate to ensure that we have the correct land mix to meet market demands and that the land is ready for sale when demand dictates.

Developed lot inventory

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

	December 31, 2022				December 31, 2021			
	CANADA			USA	CANADA			USA
(including joint arrangements at 100%)	Single-family (Lots)	Multi-family (Acres)	Non-residential (Acres)	Single-family (Lots)	Single-family (Lots)	Multi-family (Acres)	Non-residential (Acres)	Single-family (Lots)
Open	683	61.71	123.30	1	648	59.00	126.09	4
Transfers	–	(3.34)	–	–	–	–	–	–
New developments	1,091	12.89	7.36	234	1,296	5.30	3.45	277
Internal sales	–	–	–	–	–	–	–	–
Sales	(1,060)	(13.07)	(2.86)	–	(1,261)	(2.59)	(6.24)	(280)
Year end	714	58.19	127.80	235	683	61.71	123.30	1

Our Canadian markets saw steady demand in the year. Throughout the year we brought on 1,091 (2021 - 1,296) new single-family lots, and sold 1,060 (2021 -1,261) to our builders. Edmonton remained the busiest of our regions with 568 new lots developed and 616 lots sold (889 new lots developed and 799 sold in 2021). With several newer communities gaining momentum and two new communities planned for the Calgary region, we anticipate this region generating the bulk of activity in 2023.

Harmony (Denver, CO area) is our one community under active development in the United States. The US response to interest rate increases and other less favourable market conditions in 2022 was softer demand for new homes. We continued development in Harmony and brought on 234 lots which we anticipate selling in 2023. The US Community Development model differs from Canadian markets, with the majority of revenue occurring in a single quarter. Builders bulk purchase lots to build homes to sell to homeowners. No lots were sold in the US in 2022.

We remain committed to managing our risk in uncertain markets by ensuring that market demand is in place prior to proceeding with development. We are well positioned to respond to current market strength and have a strong development program in place for 2023.

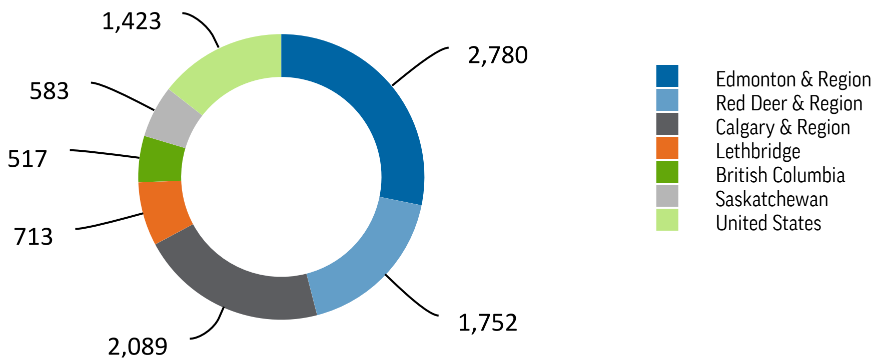
Raw land inventory

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.

Land purchases (in acres, net of joint arrangement interests)	**2022**	2021	Total Holdings
Edmonton & Region	–	–	2,780
Red Deer & Region	–	–	1,752
Calgary & Region	–	–	2,089
Lethbridge	–	–	713
British Columbia	–	–	517
Saskatchewan	–	–	583
United States	13	17	1,423
	13	17	9,857

We purchased 13.01 acres adjacent to other holdings in Buckeye, Arizona. This land is immediately developable and fits our strategy of purchasing land to rezone in the US. While we may participate in strategic land purchase opportunities such as this, our primary focus is on harvesting our current inventory of 9,857 acres, located in our operating regions as follows:

Inventory by Region



Financial Resources

Land and property development are capital-intensive activities. We require access to sufficient capital to continue to grow, develop new land and commercial property, and participate in acquisition opportunities that fit our growth strategy.

We have developed strong relationships with our major lenders, which, combined with our capital structure and liquidity, provide the company access to financing on attractive terms in spite of fluctuating credit markets and ongoing changes in the economic environment.

We primarily use fixed rate, long-term mortgage financing on our income-producing assets to raise capital for acquisitions, development activities, and other business expenditures. As such, most of our borrowings are in the form of long-term, property specific financings such as mortgages or project financing secured by specific assets. At the end of 2022, Melcor had project specific financing on two residential and two commercial projects totaling $22.60 million. Melcor looks to shift project debt to fixed term financing to secure mortgage interest rates by locking in terms. In 2022, we converted $20.71 million in project debt at our Jensen Lakes development into a fixed term mortgage of $24.00 million.

Our operations are supported by a syndicated operating line of credit with total availability of $196.35 million, which margins our land development assets (raw land inventory, land under development and agreements receivable). Melcor continues to remain focussed on collecting receivables and reducing overall leverage which provides the opportunity to participate in acquisition and growth opportunities as they arise.

For additional information on our financial resources, please refer to the Financing and Liquidity & Capital Resources sections.

Corporate Sustainability

We are committed to corporate sustainability - in environmental practice, social responsibility, governance (ESG) of our company and as stewards of the areas where we operate. Attaining best practice in all aspects of our business is our constant aspiration. Our history and our culture form our strong foundation: the authentic values of a family-run organization, building deep relationships with our clients, our business partners and our employees.

Here are the steps the we are taking to prepare for anticipated ESG reporting requirements:

- we are assessing the material ESG risks and opportunities that apply to Melcor and determining how we will benchmark, measure and report on these topics as requirements are adopted.
- we are broadening our initial building inventory/benchmarking beyond Edmonton. Our Edmonton office building climate inventory was completed in 2022 in conjunction with our involvement with Edmonton's Corporate Climate Leaders program and we are currently determining our reduction targets on the inventoried buildings and extending our benchmarking to buildings beyond Edmonton.
- we are establishing baseline data on Social and Governance topics.

The following sections detail our current practices and achievements with respect to ESG.

Environmental Commitment

Land Development

We consider the impact of land development on the natural environment. Our goal is to create a habitat where people, plants, birds and wildlife can flourish together. Here are a few examples of our practices and some notable developments. We use:

- low impact development techniques to reduce and absorb runoff (smaller driveways, more green space)
- unique naturalized storm water management ponds that mimic the natural environment. Now well-established in several communities, these ponds re-create a natural environment that attracts a variety of wildlife
- natural raw land features to inform the design of the community

- mature trees and native species in landscaping and require individual home purchasers to do the same to not only beautify the community, but to increase natural absorption of rain water and snow melt
- plentiful community gathering spaces - parks, playgrounds, community gardens and orchards

In addition, Melcor is a partner of Edmonton Area Land Trust, committed to preserving natural treasures like the Larch Sanctuary (Edmonton, AB).

Melcor designed and developed the environmentally intelligent subdivision of Larch Park, which featured LED street-lighting before it was commonplace, narrower roads, bio-swales, soil preservation and a construction waste management program. Larch Park amenities include a community garden, an orchard, trails with plaques about local wildlife and plant species throughout and a naturalized storm pond. The homes meet BuiltGreen Gold, LEED for Homes Gold or R2000 with a minimum Energuide rating of 80. It borders the Larch Sanctuary, a protected natural area reserve.

Property Development

We focus on efficient buildings in our commercial property development. Knowing that we are going to manage for the long-term, we strive to construct buildings that are as energy efficient as possible. Our neighbourhood shopping centres use xeriscaping, which is landscaping designed to reduce or eliminate the need for supplemental water by using native plants and trees.

The majority of our current development projects are neighbourhood shopping centres built for the convenience of our communities. With a quick walk, you can satisfy all your basic needs.

Property Management

Our property management practices are designed to improve operating efficiency and reduce cost while at the same time increasing client satisfaction and thus retention rates. Our capital spending strategy focuses on equipment upgrades and maintenance initiatives that will reduce energy consumption in our properties.

Examples of our commitment to environmental best practices include:

- All properties have LED lights
- 80% of our buildings have motion-sensing lights that turn off when no one is present
- Active recycling programs in all office buildings

We engage specialists to monitor and analyze our energy usage and identify potential improvements. Of 12 office properties benchmarked from 2012 - 2022 (Edmonton, AB) we achieved:

- a 20% reduction in electricity consumption, or CO_2 equivalent of 8,900 tonnes
- a 7% reduction in natural gas consumption, or CO_2 equivalent of 370 tonnes
- a 45% reduction in emission intensity, or CO_2 equivalent of 12,400 tonnes, a decrease of almost 2,000 tonnes over 2021

Recreational Properties

We clear walking trails and cross country ski tracks through our golf courses to make them a year-round attraction and a benefit to the surrounding neighbourhoods. Nearby residents appreciate the practice.

Social Responsibility

Melcor has been built on relationships since 1923. Treating others with respect has always been a core value. We cultivate and greatly value our relationships with employees, tenants, clients, contractors, shareholders and the communities where we operate.

Our goal is to build places where people want to live, work, shop and play. That means amenities that help to build a sense of community for neighbourhood residents and neighbourhood shopping centres with public space for gathering.

We demonstrate social responsibility through our relationships with all stakeholders and the communities where we operate. Our commitment to customer care and solid relationships with our tenants is paramount to our property management strategy.

Diversity & Inclusion

We are committed to fostering a diverse, inclusive and safe work environment. Our people are at the heart of our strategy and one of three core values is to "empower and care for our exceptional team."

Women make up 56% of Melcor's management committee, 39% of management and 48% of our overall team. Visible minorities make up 18% of our workforce.

Melcor emphasizes health and wellness, including mental health. In 2019, we doubled the benefit available for psychological services to support the mental well-being of staff. In 2021, managers participated in The Working Mind, management training for recognizing and managing mental health challenges in the workplace. Encouraging managers to check in on the mental and emotional well-being of staff has been a priority.

The focus on a positive, empowering work environment creates an engaged and dedicated workforce with 23 employees having served the company for 25+ years. The average tenure of our employees is 9.80 years.

Community Investment: Supporting Local

Being invested in the communities where we do business is an important part of who we are. As we pursue excellence in our business, we also want the communities where we do business to be the best they can be. We give where we live to build strong communities. Our giving and involvement focuses on key pillars of strong communities: education, health, youth, sports, public gathering places such as libraries, and social programs that lend a helping hand to those in need. Our employees also make meaningful contributions to local charities through fundraising activities and by volunteering their time and talent with local not-for-profit organizations.

This commitment goes beyond financial and volunteer support. We take pride in the way our properties look. Entrances to office buildings have seasonal floral arrangements, beautifying the street. We have public art installations (both temporary and fixed) in, on and around a number of our properties.

Our focus on relationships extends to our service providers. The majority of our service providers are local and many are small businesses that support our local economies.

Effective Governance

We are committed to effective corporate governance practices as a core component of our operating philosophy. Strong governance practices form the foundation of a sustainable company and long-term value creation for share- and unit-holders.

Melcor's Management Committee, which reviews and approves the projects we undertake, is 56% female.

Examples of our commitment to effective corporate governance practices include:

- a board of directors comprised of a majority of independent directors
- as the chair is related to the company, we have appointed a lead director
- 38% of directors are female; 40% of independent directors
- 50% of our executive team is female

Glossary of Acronyms

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

2022 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 on page 40.

($000s except as noted)	2022	2021	Change
Revenue	**241,747**	315,628	(23.4)%
Gross margin (%)[3]	**48.9 %**	44.4 %	10.1 %
Fair value adjustment on investment properties	**21,554**	19,370	11.3 %
Net income	**89,354**	56,311	58.7 %
Net margin (%)[3]	**37.0 %**	17.8 %	107.9 %
Funds from operations[1]	**60,859**	81,327	(25.2)%
Shareholders' equity	**1,178,336**	1,116,469	5.5 %
Total assets	**2,167,050**	2,113,927	2.5 %
Per Share Data ($)			
Basic earnings	**2.75**	1.70	61.8 %
Diluted earnings	**2.74**	1.70	61.2 %
Funds from operations[2]	**1.88**	2.46	(23.6)%
Book value[2]	**37.71**	33.87	11.3 %
Dividends	**0.58**	0.44	31.8 %

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.
(2) Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.
(3) Supplementary financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.

Consolidated revenue for 2022 was $241.75 million down 23% from the record revenue set in 2021. Gross margin was up at 49% due to higher contributions from our higher margin Income Property segment. Net income was up 59% to $89.35 million and FFO was down 25.2% to $60.86 million. Although FFO was down, we also generated additional cash through the sale of US residential units for proceeds of $35.00 million, not reflected in FFO. This represents a gain of $23.06 million, however as Investment Properties are carried at fair value, the increase would have been captured in fair value adjustments in the current and comparative periods.

The significant factor in comparing our revenue to the prior year is the lack of US Community Development sales in 2022. In 2021, this region sold 280 lots and 155 acres (595 paper lots) for revenue of $54.89 million and earnings of $21.18 million. In the current year, no lots or acres were sold. Land sales in the US differ from Canadian as we often sell the lots in bulk agreements leading to dramatic swings in sales period over period. New home sales in our Canadian regions remain strong, resulting in 1,060 single-family lots being sold compared to 1,261 lots in 2021.

Property Development revenue is primarily derived from internal transfers to our Investment Properties division. In 2022, the value of transfers was $13.63 million (eliminated on consolidation). Transfers added 36,846 sf (5 retail buildings) to our portfolio of income-generating properties. Margins on transfers was 17%, up compared to 2021.

Investment Properties revenue was up 10% due to GLA growth (transfers from the Property Development division) and improved occupancy. As mentioned above, the division also sold 117 residential units in Phoenix, Arizona for $35.00 million (US$26.15 million) net of transaction costs. These sales are not included in revenue however the value of the assets increased over time through both exchange rates changes and market improvements, contributing to a total realized gain on sale of $23.06 million. As the properties were unencumbered at the time of sale, they contributed $35.00 million cash to proceeds from investing activities. Subsequent to year end, $24.01 million (US$18.00 million) was repatriated and used to pay down our line of credit.

Revenue in the Recreational Properties division was up 5% with slightly lower revenue from green fees due to weather conditions during the golf season offset by an increase in food and beverage revenues over 2021.

The US contributed 7% of total revenue or $15.83 million in the year, all from Investment Properties. This compares to 2021 revenue of $70.38 million (22% of total revenue). As noted above, the large swing in US revenue was due to timing of sales in our US Community Development.

Throughout the year, we maintained our conservative and disciplined approach to investment and development activities and the management of our assets and liabilities.

Investing for growth

We purchased 13.01 acres adjacent to other holdings in Buckeye, Arizona in the year. This land is immediately developable and fits our strategy of purchasing land to rezone in the US. While we may participate in strategic land purchase opportunities such as this, our primary focus is on harvesting our current inventory of 9,857 acres.

Our Property Development division completed and transferred 5 retail buildings (36,846 sf) to Investment Properties in 2022 with a further 61,850 sf under development. Transfer revenue is eliminated on consolidation. These new buildings will positively impact results in future years as we continue to grow our income-generating assets for long-term holding or for sale to the REIT. We continued to progress commercial land through the development, approvals and lease-up process and have an additional 6 buildings in 4 projects expected to be completed and transferred to Investment Properties in 2023.

Asset Dispositions

During the year, we sold 117 residential units in Arizona for $35.00 million (US$26.15 million) net of transaction costs.

We also entered into an unconditional agreement to sell a REIT-owned investment property for gross proceeds of $19.50 million ($19.03 million net of transaction costs). This asset was reclassified as asset held for sale at year end and was subsequently sold on February 1, 2023.

Return to Shareholders

We continued to return value to our shareholders and unitholders:

Melcor Developments:

We increased dividends paid to shareholders by 31.8% to $0.58 per share (2021 - $0.44 per share).

On March 16, 2023 we declared a quarterly dividend of $0.16 per share, payable on March 31, 2023 to shareholders of record on March 24, 2023. The dividend is an eligible dividend for Canadian tax purposes.

We have been paying dividends since 1969.

On December 22, 2022, Melcor filled the current NCIB by purchasing the final shares bringing the total purchased to the maximum 1,641,627 shares allowed. The current NCIB period ends on March 31, 2023 and no additional shares can be purchased at this time.

Melcor REIT:

The REIT distributed $0.48 per unit to unitholders in 2022 compared to $0.45 per unit in 2021. Subsequent to the year, the REIT declared distributions of $0.04 per unit for January, February and March 2023.

The REIT has been paying distributions since inception in 2013.

Revenue & Margins

Revenue was down 23% to $241.75 million in 2022, compared to 2021 driven by the reduction in Community Development US sales over 2021. In 2021 this region sold 280 lots and 155 acres (595 paper lots) for revenue of $54.89 million and earnings of $21.18 million. In the current year, no lots or acres were sold in the US. US land sales differ from Canadian as we often sell the lots in bulk agreements leading to dramatic swings in sales period over period. During the year we sold 1,060 single-family lots in Canada compared to 1,261 in 2021.

Our average lot price on single-family lots increased 6%, from $0.14 million in 2021 to $0.15 million in 2022. Average selling price can vary significantly period over period depending on the type of inventory sold. Melcor strives to provide diversified lot options to our builders, which range from lakefront estates lots to townhouse/duplex products.

Revenue from our Income Properties (including REIT and Investment Properties divisions) was up 4% over 2021. Investment Properties revenue increased by 10% due to new properties completed and transferred from our Property Development division which increases the divisions rentable GLA and overall revenue base. Our REIT properties continue to provide stable returns, and remained flat over 2021.

Gross margin percent and net margin percent are supplementary financial measures of performance. Please refer to the Non-GAAP and Non-Standard Measures section on page 40 for more information. Gross margin was 49% in 2022 compared to 44% in the prior year. Our income-producing portfolio (including REIT properties), consistently provides higher gross margins than our other operating divisions. In both 2022 and 2021 margin in these divisions was 59%. In 2022, 43% of total revenue was from these divisions, up from 31% in 2021. This impacts our consolidated margins and was the largest factor in the increase in overall margins realized in the year.

Gross margin earned in our Community Development division remained strong at 39% compared to 37% in the prior year. Overall gross profit contributed by the division however was down 30% as a result of reduced sales in the US region. Margin in this division is affected by a number of factors, including types of lots, development costs, the timing of the original land purchase and the relative real-estate market strength at the time of sale. Land that has been in inventory for many years typically generates higher margin on sale. Gross margin on income properties is more stable by nature and serves to neutralize volatility in Community Development margin.

Net margin increased to 37% from 18% in 2021. Net margin is impacted by swings in fair value adjustments recorded on our investment properties, REIT units and the conversion feature on our convertible debenture. Net income was $89.35 million, up from $56.31 million in 2021, largely as a result of fair value gains of $21.55 million recorded on our investment properties. Adjustments related to the REIT units had a positive impact of $10.14 million in 2022 compared to a negative impact of $31.53 million in 2021 . 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.

Fair value gains of $21.55 million were recorded in 2022 compared to fair value gains of $19.37 million in 2021.

Funds From Operations (FFO)

Funds From Operations (FFO) is a non-GAAP measure used in the real estate industry to measure operating performance. Refer to the Non-GAAP Measures section starting on page 40. 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 to FFO:

($000s)	Year Ended	
	December 31, 2022	December 31, 2021
Net income for the year	**89,354**	56,311
Amortization of operating lease incentives	**7,561**	8,160
Fair value adjustment on investment properties	**(21,554)**	(19,370)
Depreciation on property and equipment	**1,350**	1,334
Stock based compensation expense	**841**	1,132
Non-cash financing (costs) recoveries	**(8,518)**	3,479
Gain on sale of asset	**(40)**	(151)
Deferred income taxes	**8,225**	4,684
Fair value adjustment on REIT units	**(16,360)**	25,748
FFO(1)	**60,859**	81,327
Per Share Data		
FFO per share(2)	**1.88**	2.46

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.
(2) Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.

FFO decreased $20.47 million or 25% to $60.86 million from $81.33 million in 2021. This decrease was primarily due to overall decreased gross profit, which was down $21.86 million or 16% in 2022.

As noted in the Revenue & Margins section on page 13 margins were down in the year as our US Community Development region had no sales in 2022 compared to sales in 2021 of 280 lots and 155 acres (595 paper lots) which in 2021 generated revenue of $54.89 million and earnings of $21.18 million. In 2022 we developed 234 single-family lots in the US which are projected to be sold in 2023. US lot sales have proven to provide more lumpy results as sales are often more bulk in nature and occur in a single quarter. The US market furthermore saw a more immediate economic reaction to rising interest rates in comparison to our Canadian markets.

FFO was also down due to higher G&A and interest costs. G&A increased by $1.09 million or 5.0% in the year. Interest cost increases in the year were the result of rising interest rates and overall higher debt levels.

Finance costs in the year were significantly impacted by swings in non-cash financing costs, which includes revaluation adjustments on our interest rate swaps and the conversion feature on our convertible debenture. These amounts are adjusted out of FFO in the non-cash financing costs line item above and therefore do not impact FFO.

Our Income Properties (excluding fair value adjustments) remain a steady source of FFO and help to stabilize overall income. Our Recreational Properties have also been a stable contributor to our FFO and gross profit.

Although not reflected in FFO, we also sold 117 residential units in the US (classified as Investment Properties), generating realized gains of $23.06 million and bringing in cash of $35.00 million.

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, industrial and multi-family residential revenue-producing properties on serviced commercial sites developed by Community Development or purchased from third parties;
- Investment Properties, which manages and leases the commercial properties developed by the Property Development division and an externally purchased portfolio of assets, as well as assets held in the REIT;
- The REIT, which owned 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, marketing, administration, legal and human resources.

The following table summarizes operating division results before intersegment eliminations and excludes the corporate division. Given the significant impact the consolidation of the REIT has on Melcor's consolidated statement of financial position, the assets and liabilities of the REIT have been presented separately from the rest of consolidated entity in Note 26.

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Year ended December 31		Year ended December 31		Year ended December 31		Year ended December 31		Year ended December 31	
($000s except as noted)	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Revenue	**135,777**	202,754	**14,013**	42,929	**43,010**	38,931	**74,105**	74,094	**10,453**	9,989
Portion of total revenue[1]	**48%**	54%	**5%**	12%	**16%**	11%	**27%**	20%	**4%**	3%
Cost of sales	**(83,054)**	(127,058)	**(13,633)**	(42,800)	**(17,445)**	(16,296)	**(31,060)**	(30,340)	**(6,126)**	(5,741)
Gross profit	**52,723**	75,696	**380**	129	**25,565**	22,635	**43,045**	43,754	**4,327**	4,248
Gross margin (%) [1]	**39%**	37%	**3%**	—%	**59%**	58%	**58%**	59%	**41%**	43%
Portion of total gross profit[1]	**42%**	52%	**—%**	—%	**20%**	15%	**34%**	30%	**3%**	3%
General and administrative expense	**(7,848)**	(6,902)	**(2,071)**	(1,947)	**(3,162)**	(2,409)	**(3,358)**	(2,953)	**(2,716)**	(2,610)
Fair value adjustment on investment properties	**—**	—	**3,142**	2,352	**25,663**	10,850	**(11,995)**	2,879	**—**	—
Gain on sale of assets	**—**	—	**—**	—	**—**	—	**—**	—	**40**	151
Interest income	**1,406**	516	**4**	—	**31**	1	**31**	30	**6**	—
Segment Earnings	**46,281**	69,310	**1,455**	534	**48,097**	31,077	**27,723**	43,710	**1,657**	1,789

(1) Supplementary financial measure. Refer to Non-GAAP and Non-Standard Measures section on page 40 for further details.

Community Development

Our Community Development division owns and 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 potential 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, who in turn develops commercial property 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 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 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 working closely with our chosen builders.

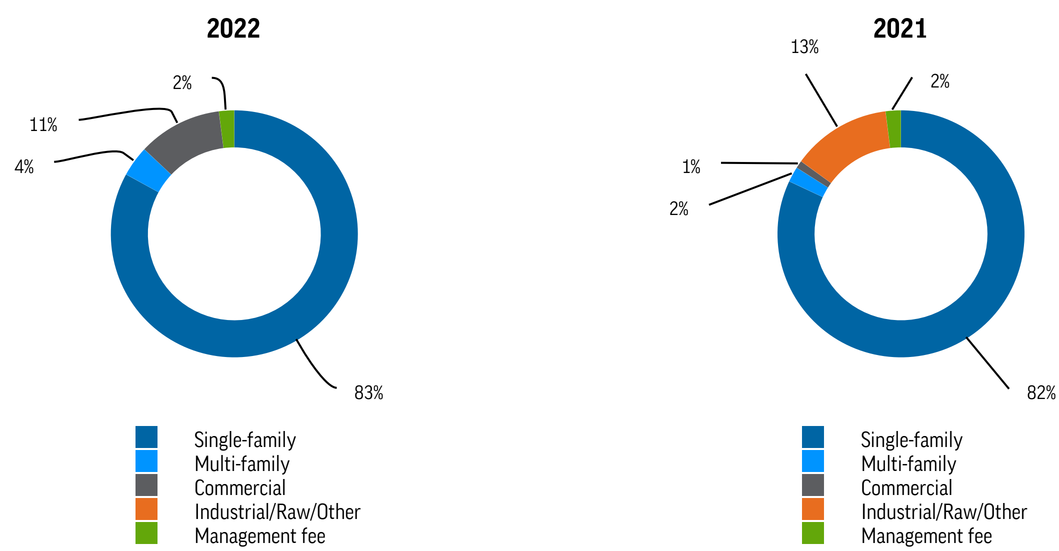
As at December 31, 2022 we held 9,857 acres of land for future development and developed inventory of 714 single-family lots in Canada, 235 single-family lots in the US, 58 acres ready for multi-family development, and 128 acres for commercial and industrial development.

Sales Activity

Income can fluctuate significantly from quarter to quarter due to the timing of plan registrations, the cyclical nature of real estate markets and the mix of land sold. The seasonality caused by the timing of plan registrations and the real estate construction cycle typically evens out over the course of the year.

We brought on 29 new phases in 19 communities to replenish inventory in 2022. We also continued to clear out existing inventory held by Melcor (lots) and by our builders (spec homes) and have active marketing programs in place to support this objective.

REVENUE BY TYPE



The following table summarizes our activity:

Consolidated	2022	2021
Canada Sales data: (including joint operations at 100%)		
Single-family sales (number of lots)	**1,060**	1,261
Gross average revenue per single family lot ($)	**153,934**	144,883
Multi-family sales (acres)	**13.07**	2.59
Gross average revenue per multi-family acre ($)	**802,357**	1,359,073
Commercial sales (acres)	**13.38**	4.95
Gross average revenue per commercial land acre ($)	**1,093,848**	540,141
Other land sales - Industrial, Other (acres)	**0.95**	1.29
Gross average revenue per other land acre ($)	**452,632**	325,581
Raw land sales to municipalities (acres)	**1.49**	51.04
Gross average revenue per raw land acre ($)	**107,113**	56,176
US Sales data: (including joint operations at 100%)		
Single-family sales (number of lots)	**–**	280
Gross average revenue per single family lot ($)	**–**	102.424
Other land sales - raw (paper lots), other	**–**	595
Gross average revenue per paper lot ($)	**–**	46,382
Financial results: (including joint operations at Melcor's interest)		
Revenue ($000s)	**135,777**	202,754
Earnings ($000s)	**46,281**	69,310

Regional Highlights

Edmonton & Region	2022	2021
Sales data:		
Single-family sales (number of lots)	**616**	799
Multi-family sales (acres)	**7.77**	–
Other land sales - Industrial & Other (acres)	**0.95**	1.29
Raw land sales to municipalities (acres)	**0.64**	8.46
Financial results:		
Revenue ($000s)	**59,239**	77,980
Earnings ($000s)	**21,247**	23,098

Our Edmonton region had a strong year with sales of 616 lots and 9.36 acres; however we sold 23% fewer lots compared to the record breaking sales pace of 2021. The Edmonton region brought on 15 new phases in 9 communities including some highly anticipated estate lots in Jensen Lakes. We continue to see interest and activity in all neighbourhoods.

We offer a variety of price-sensitive options in all neighbourhoods, including duplexes, townhomes, detached garage homes, homes with secondary or garage suites and zero lot-line homes. We also offer estate lots in some neighbourhoods. Demand remains for lots at all price points.

Red Deer & Region	2022	2021
Sales data:		
Single-family (number of lots)	**63**	117
Commercial sales (acres)	**1.91**	3.45
Raw land sales to government bodies	**–**	6.42
Financial results:		
Revenue ($000s)	**6,096**	11,520
Earnings ($000s)	**2,298**	4,651

The region developed 83 new lots in 2022, and sold 63. Given that Red Deer is a smaller market, lot sales can fluctuate year to year depending on the level of development activity. Melcor continues to dominate market share in the region with 41% of all multi-family and single-family lots permitted in 2022.

Calgary & Region	2022	2021
Sales data:		
Single-family sales (number of lots)	**315**	256
Commercial sales (acres)	**11.47**	1.50
Financial results:		
Revenue ($000s)	**49,409**	25,662
Earnings ($000s)	**15,109**	7,410

With a new community launched in 2022 (Cobblestone Creek - Airdrie, AB) and active development in all communities in the Calgary region, single-family lot sales increased by 23%. We also sold 11.47 acres of commercial land to our Property Development division for $13.69 million for the ongoing development of Greenwich in west Calgary. Revenue and costs related to intra-company sales are eliminated on consolidation and margin is classified as a fair value gain due to the change in land use.

We anticipate an active year in 2023 with development ramping up in our new community of Cobblestone Creek (Airdrie, AB), and new phases of Sunset Ridge (Cochrane, AB) and Lanark Landing (Airdrie, AB) being brought on. We expect to introduce two new communities in the region in 2023 adding further momentum.

Lethbridge	2022	2021
Sales data:		
Single-family sales (number of lots)	**34**	14
Multi-family sales (acres)	**5.30**	–
Financial results:		
Revenue ($000s)	**6,138**	1,453
Earnings ($000s)	**2,070**	143

With a new phase brought on in one community (Garry Station), single-family lot sales were up significantly to 34 from 14 in 2021. We also sold 5.30 acres for a multi-family development in Legacy Ridge, which contributed revenue of $2.23 million in 2022. Lethbridge is one of our smaller markets and therefore lot sales can fluctuate significantly from period to period depending on the stage of development in various communities.

Kelowna	2022	2021
Sales data:		
Single-family sales (number of lots)	**32**	75
Multi-family sales (acres)	**–**	2.59
Raw land sales to municipalities (acres)	**–**	1.57
Financial results:		
Revenue ($000s)	**13,898**	29,802
Earnings (loss) ($000s)	**4,244**	8,614

As anticipated, sales in Kelowna were down compared to 2021 as no additional phases were developed at North Clifton Estates, our Okanagan lake front community which sold out in 2021. We are beginning to plan future phases, but do not project sales in 2023.

All sales in 2022 were from the Black Mountain community. We expect to develop another small phase in this community in 2023.

United States	2022	2021
Sales data:		
Single-family sales (number of lots)	**–**	280
Other land sales - Industrial & Other (acres)	**–**	155
Financial results:		
Revenue ($000s)	**977**	54,886
Earnings ($000s)	**1,319**	21,176

The US Community Development model differs from Canadian markets. Builders in our Harmony community buy lots in bulk, causing sales to be lumpy and vary significantly year over year. Further compounding this lumpiness, sales of paper lots are also a bulk purchase in one particular period.

We did not sell any lots or paper lots in the US in 2022; however, we did develop an additional 234 lots which we hope to sell in 2023.

We continue to actively market and work on municipal 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 ourselves. We continue to seek land acquisition opportunities and purchased 13.01 acres adjacent to our existing holdings in Buckeye, AZ for $4.25 million (US $3.30 million).

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, Rona, Royal Bank, Recipe Unlimited, Save-on Foods, Scotiabank, Shoppers Drug Mart, Staples, Starbucks, Subway, TD Canada Trust, Tim Hortons, Walmart, Winners and many others.

Completed buildings are transferred to Investment Properties at fair market value (based on third party appraisals) once construction and leasing activities near completion. The transfer 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)	2022	2021
Total revenue	**14,013**	42,929
Revenue from property transfers	**13,633**	42,800
Management fees	**380**	129
Margin (%) on property transfers	**17 %**	1 %
Square footage transferred (sf, at 100%)	**36,846**	118,734
Number of buildings transferred	**5**	9
Fair value gains on investment properties	**3,142**	2,352

Property Development completed and transferred 5 buildings (36,846 sf) to Investment Properties in 2022. A further 61,850 sf remains under development and we continue to move new projects through the planning and development approval process. We plan for another active construction season in 2023 and anticipate commencing construction on an additional 24,427 sf.

Regional Highlights

A breakdown of our fair value gains by region is as follows:

($000s)	2022	2021
Northern Alberta	**1,767**	2,266
Southern Alberta	**1,375**	86
	3,142	2,352

Northern Alberta completed and transferred 24,186 sf (4 buildings) to Investment Properties:

- Jensen Lakes Crossing (St. Albert): a CRU (7,049 sf) for fair value gains of $0.22 million
- Woodbend Market (Leduc): a CRU (10,748 sf) for fair value gains of $0.55 million
- Clearview Market (Red Deer): a single tenant Starbucks building (1,832 sf) for fair value gains of $0.07 million
- Clearview Market (Red Deer): a single tenant BMO building (4,557 sf) for fair value gains of $0.23

Southern Alberta completed and transferred 12,660 sf (1 buildings) to Investment Properties:

- Chestermere Station (Calgary): a CRU (12,660 sf) for fair value gains of $0.22

Transfers occur upon completion of the buildings, while the fair value gains are recorded over the course of construction. In 2021, we adjusted the fair value of buildings transferred in prior years, which impacted divisional fair value gains in the comparable period.

Future development opportunities

We continually identify parcels of land from our land inventory 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 table is a summary of current and future development projects:

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	198,910	–
Telford Industrial	Leduc	*Industrial Park*	500,000	143,200	–
West Henday Promenade	West Edmonton	*Regional mixed use centre*	515,000	116,300	–
Kingsview Market	Airdrie	*Regional shopping centre*	319,000	200,600	–
Chestermere Station	Chestermere	*Neighbourhood shopping centre*	264,260	254,260	–
Clearview Market 2	Red Deer	*Neighbourhood shopping centre*	80,000	27,200	–
The District at North Deerfoot	North Calgary	*Regional business / industrial park*	1,285,000	586,600	–
Campsite Industrial	Spruce Grove	*Industrial Park*	170,000	23,700	–
Jensen Lakes Crossing	St. Albert	*Neighbourhood shopping centre*	150,000	106,350	–
Woodbend Market	Leduc	*Neighbourhood shopping centre*	140,000	10,750	27,260
Greenwich	West Calgary	*Regional mixed use centre*	325,000	62,600	34,590
Vista Ridge	Sylvan Lake	*Neighbourhood shopping centre*	20,000	5,200	–

Expected Future Projects					
Project	Location	Type	Total SF [1]	Ownership Interest	Expected Start (year)
Bower	Red Deer	*Neighbourhood shopping centre*	85,000	100%	2025
Secord	Edmonton	*Neighbourhood shopping centre*	85,000	60%	2024
Keystone Common	North Calgary	*Regional power centre*	500,000	100%	2025+
Mattson	Edmonton	*Neighbourhood shopping centre*	78,000	50%	2025
Rollyview	Leduc	*Neighbourhood shopping centre*	75,000	100%	2026+
The Shoppes at Canyons	Lethbridge	*Neighbourhood shopping centre*	105,000	100%	2026+
West Pointe Marketplace	Lethbridge	*Regional power centre*	750,000	100%	2026+
Westview Commercial	West Calgary	*Neighbourhood shopping centre*	150,000	100%	2026+
Sora	South Calgary	*Neighbourhood shopping centre*	60,000	50%	2026+

(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.

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 the properties owned by the REIT. Currently our Investment Properties division manages 4.80 million sf of income-producing commercial GLA and 476 residential units.

Our commercial property portfolio is primarily comprised of properties developed and transferred from our Property Development division in Alberta and acquired from third parties elsewhere. Our goal is to improve the operating efficiency of each property for stable and growing cash flow, 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 economy. We also own 11 parking lots and other assets which are held for the long-term, providing current stable income and 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:

($000s except as noted)	2022	2021
Commercial properties GLA under management (sf, total)	**4,804,248**	4,753,285
Properties owned and managed (sf)	**1,135,418**	1,101,292
Properties managed (sf)	**3,668,830**	3,651,993
Residential units managed	**476**	593
Occupancy - CAD	**89.3 %**	76.1 %
Occupancy - US	**82.6 %**	75.4 %
WABR (per sf) - CAD	**$ 27.02**	$ 26.59
WABR (per sf) - US	**$ 20.32**	$ 20.67

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

($000s except as noted)	2022	2021
Revenue (total)	**43,010**	38,931
Canadian properties	**21,985**	17,333
US properties	**14,848**	15,494
Management fees	**5,418**	5,617
Parking lots and other assets	**759**	487
NOI (1)	**24,948**	23,296
FFO (1)	**24,054**	21,851
FFO per share (2)	**$ 0.73**	$ 0.66

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.
(2) Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.

Since the formation of the REIT in 2013, the Investment Properties division's primary function is asset management and hands on property management.

Canadian properties

Our Canadian property portfolio continues to grow via completions and transfers from Property Development. In 2022, Property Development completed construction and leasing and transferred five buildings (36,846 sf) compared to nine buildings (118,734 sf) in 2021. New properties transferred in the current and comparative periods added $2.64 million to NOI in 2022 (2021 - $0.80 million) as detailed in the table below. With 61,850 sf of GLA under active development in the Property Development division, we expect our Canadian property portfolio to continue to grow.

Occupancy on properties owned by Investment Properties was 89% at December 31, 2022 (2021 - 76%). Committed occupancy is 90% (2021 - 88%). Weighted average base rent was up $0.43 to $27.02.

Net operating income (NOI) and same asset NOI are non-standard metrics used in the real estate industry to measure the performance of investment properties. The IFRS measurement most directly comparable to NOI and same asset NOI is segment earnings.

The following is a reconciliation of Canadian properties same asset net operating income (NOI) to gross profit:

($000s except as noted)	2022	2021
Same asset NOI (1)	**11,169**	10,074
Properties transferred from PD	**2,642**	801
NOI(1)	**13,811**	10,875
Amortization of operating lease incentives	**(691)**	(651)
Straight-line rent adjustment	**1,962**	1,308
Gross profit	**15,082**	11,532

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.

Gross profit was $15.08 million, up 31% from 2021 as a result of properties transferred from the Property Development Division over the past 12 months and higher occupancy overall.

Same asset NOI was up 11% to $11.17 million due to improved occupancy on assets held throughout the current and comparative periods.

US properties

Two events had a significant impact on our US properties 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: Throughout 2022, we sold a total of 117 residential units in Phoenix, Arizona for net sale price of $35.00 million (US$26.15 million) net of transaction costs. This includes the sale of all 113 units at the Dakotas at Camelback. The acquisition cost of these units was $11.94 million resulting in realized gains of $23.06 million. This gain is captured in the fair value adjustments in the current and comparative periods.

In 2021, we sold 11 residential units for $7.42 million (US$5.96 million). These dispositions are adjusted for in the same asset NOI calculations below.

Our Dispositions noted above significantly impacted results on our US properties. Revenue on US properties was $14.85 million compared to $15.49 million in 2021 and NOI was $4.79 million compared to $6.72 million in 2021. On a same asset basis, NOI was down $1.70 million as a result of the IP Early Termination event which added $1.94 million to our 2021 revenue and NOI. Excluding the IP Early Termination event, same-asset NOI was up $0.22 million over 2021.

As at December 31, 2022 occupancy was 83% up 7% from 2021 and WABR was $20.32 per sf down 2% from 2021. Residential occupancy was 88% at year end (2021 - 100%).

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

($000s except as noted)	2022	2021
Same asset NOI (1)	**4,187**	5,890
Third party disposals	**606**	825
NOI (1)	**4,793**	6,715
Foreign currency translation	**1,415**	1,705
Amortization of operating lease incentives	**(925)**	(972)
Straight-line rent adjustment	**274**	(346)
Gross profit	**5,557**	7,102

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.

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 asset manager. The leasing fee agreement between Melcor and Melcor REIT was amended effective January 1, 2022, which reduced lease fees paid from the REIT to Melcor. These amounts are eliminated on consolidation.

Revenue from parking stalls and other assets was up 56% to $0.76 million as a result of the re-population of downtown offices post-pandemic. These revenues are ancillary to our business and tend to fluctuate from period to period.

FFO

FFO was up 10% over 2021 as our Investment Properties portfolio continues to grow as properties are completed and transferred from Property Development. Investment Properties remain a steady source of FFO and serve to produce consistent and stable results for Melcor.

Fair Value of Investment Portfolio

The fair value of our portfolio increased by $16.90 million over 2021. The components leading to the change in fair value include:

- the sale of residential units for $35.00 million (US$26.15 million), reducing fair value.
- transfers from Property Development of $13.63 million, increasing fair value.
- property improvements valued at $6.10 million.
- fair value gains of $25.66 million, foreign currency translation gains of $7.28 million, and changes to tenant improvements and straight line rent.

Investment properties were valued by Melcor's internal valuation team as at December 31, 2022. Our qualified external valuation professionals valued 20 of the 28 legal phases with a fair value of $228.12 million This resulted in fair value gains of $25.66 million recorded as fair value adjustments on investment properties in the statements of income and comprehensive income. In 2021 our qualified external valuation professionals valued 19 of the 29 legal phases with a fair value of $186.29 million which resulted in a fair value gain of $10.85 million for the year.

A breakdown of our fair value adjustment on investment properties by geographic region and significant asset type is as follows:

($000s)	2022	2021
Alberta - all assets	**(6,491)**	4,323
US - residential	**34,207**	204
US - commercial	**(2,053)**	6,323
	25,663	10,850

Our US residential properties saw significant changes in value in the year. These gains include a fair value bump on units sold during the year, and those valued as part of our regular valuation program. Losses on our Alberta assets were primarily due to an increase in capitalization rates on several properties correlated to increased interest rates. Refer to note 30 to the consolidated financial statements for additional information on the calculation of fair value adjustments.

REIT

The REIT owned 39 income-producing office, retail and industrial properties, representing 3,216,141 sf in GLA and a land lease community at December 31, 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.

We held a controlling 55.4% effective interest in the REIT through ownership of all Class B LP Units at December 31, 2022 (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. Note 26 to the Financial Statements provides a breakout of the assets and liabilities of the REIT as supplemental information to assist readers in understanding Melcor's financial position..

Operating results

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

($000s except as noted)	2022	2021
Rental revenue	**74,105**	74,094
Net operating income (NOI) (1)	**46,319**	47,764
Same asset NOI *(see calculation following)* (1)	**45,523**	46,858
Fair value adjustments	**(11,995)**	2,879
Occupancy	**88 %**	87 %
Funds from operations (1)	**43,443**	45,049
Funds from operations per unit (2)	**$ 1.39**	$ 1.37

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.
(2) Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.

Rental revenue was flat over 2021. Higher revenue from recoveries and straight-line rent adjustments offset a decrease in other revenue and swings in amortization of tenant incentives. 2021 other revenue includes $1.00 million in lease break fees (Early Termination event). Excluding the one-time payment, rental revenue was up 1%.

In 2022 we completed 368,296 sf of lease renewals (including holdovers) and had 133,901 sf in new leases commence, increasing occupancy slightly to 88.1%. We continue to see activity and opportunity across our portfolio in all asset classes and achieved a healthy retention rate of 86.1%.

Recoveries are amounts recovered from tenants for direct operating expenses incurred and include a nominal administrative charge. We typically expect recovery revenue to correlate with changes in recoverable operating expenses. Compared to 2021, both recovery revenue and direct operating expenses increased 2%. Our recovery ratio (recoveries divided by direct operating expenses) remained steady compared to 2021 at 86.3%.

Other revenue includes parking revenue and other miscellaneous revenue that is ancillary to our business and fluctuates from period to period. The Early Termination event ($1.00 million in Q1-2021) skews the comparative results. Excluding this, other revenue was down 5%.

Amortization of tenant incentives can fluctuate based on the timing of lease rollovers and leasing incentives. Straight-line rent (SLR) adjustments relate to new leases which have escalating rent rates and/or rent-free periods. SLR fluctuates due to the timing of signed leases and the rent-steps under individual leases.

Direct operating expenses were up 2% over 2021 due to higher property taxes and utility costs. Property taxes and utilities were up 4% over 2021. Utility costs, which include heating and air conditioning costs, fluctuate depending on weather conditions in the regions where our assets are located as well as prevailing utility rates, which are generally higher in Alberta where the majority of our properties are located. Property tax increases are the result of increased mill rates over the prior year.

Operating expenses remained stable over 2021. Operating expenses vary period by period depending on the timing of maintenance projects undertaken.

Inflationary pressures are driving up utility bills, including heating, gas and electricity. We expect these increases to impact operating expenses throughout 2023.

($000s except as noted)	2022	2021
Same asset NOI [1]	**45,523**	46,858
Disposals / Asset Held for Sale	**796**	906
NOI before adjustments	**46,319**	47,764
Amortization of operating lease incentives	**(3,725)**	(4,218)
Straight-line rent adjustment	**451**	208
Net rental income	**43,045**	43,754

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.

NOI and same-asset NOI are non-GAAP financial measures 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 Measures section starting on page 40 of this MD&A for more information.

NOI and same-asset NOI were down 3% over 2021 due to the Early Termination Event in 2021. Excluding this, NOI and same-asset NOI were down 1% which is consistent with the increase in direct operating expenses noted above.

Same-asset NOI varies from NOI above due to the the reclassification of an office building in Kelowna, BC as Asset Held for Sale as at December 31, 2022, which is excluded from both the current and comparative periods. Other than this, there have been no acquisitions or dispositions over the past three years.

Funds from Operations

Funds From Operations (FFO) is a non-GAAP financial measures used in the real estate industry to measure the operating performance of investment properties. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information. FFO within this division decreased by 4% over 2021 as a result of a $1.00 million lease termination fee paid which was included in revenue in the comparative year (Q1-2021) as well as higher G&A and interest costs in 2022. Overall, FFO remains fairly consistent year over year and helps stabilize Melcor's overall operating results.

Fair Value of REIT Portfolio

	2022	2021
Number of properties	**39**	39
Total GLA (sf)	**3,346,240**	3,346,274
GLA (REIT owned %) (sf)	**3,216,141**	3,216,175
Fair value of portfolio ($000s) [1]	**719,682**	723,729
Weighted average capitalization rate	**7.08 %**	6.81 %
Weighted average terminal cap rate	**7.16 %**	6.90 %
Weighted average discount rate	**8.04 %**	7.86 %

(1) Supplementary financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.

Investment properties were valued by Melcor's internal valuation team with the assistance of qualified independent external valuation professionals. In 2022, external valuation professionals valued 44 investment properties (of 53 legal phases) with fair value of $578.35 million (including amounts presented as tenant incentives and straight-line rent adjustments), resulting in a fair value loss of $12.00 million.

In 2021, external valuation professionals valued 10 investment properties (of 53 legal phases) with fair value of $130.25 million (including amounts presented as tenant incentives and straight-line rent adjustments), resulted in fair value gains of $2.88 million. Please refer to note 30 to the consolidated statements for additional information on the calculation of fair value adjustments.

Phases are a result of the property development process when a larger project is developed over an extended period of time and subdivided into legal phases for increased flexibility. As leases turn over, unit and/or building GLA is remeasured, resulting in changes to GLA.

A breakdown of our fair value adjustments on investment properties by geographic region is as follows:

($000s)	2022	2021
Northern Alberta	**(8,940)**	1,273
Southern Alberta	**(7,362)**	2,089
Saskatchewan & British Columbia	**4,307**	(483)
	(11,995)	2,879

Our valuation program requires the revaluation of each legal phase every two years or as market conditions dictate. Our entire portfolio was revalued in 2020, triggering an anomalous bump in properties due for revaluation in 2022. We are proactively working to schedule portfolio revaluations so that they are more evenly distributed.

Fair value adjustments represent a change of approximately 1.7% (2021 - 0.4%) in the fair value of our portfolio. Rising interest rates increased our cost of borrowing and overall risk of investing, contributing to higher capitalization rates and a corresponding decrease in fair value on investment properties. At year-end, we had accepted an offer to purchase an investment property and the property was reclassified as asset held for sale. The offer to purchase was in excess of the carrying value of the property at the time the offer was accepted, resulting in a fair value adjustment on the property included in the $4.31 million gain above. This sale closed on February 1, 2023.

The REIT will continue to monitor its portfolio and the market in assessing fair value changes and cautions readers that further fair value adjustments may be required in the future.

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 so as 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 course fees, number of rounds played and customer satisfaction and enjoyment.

Operating Results

($000s except as noted)	2022	2021
Revenue	**10,453**	9,989
Gross profit	**4,327**	4,248
Gross margin (%) [1]	**41.4 %**	42.5 %
Earnings	**1,657**	1,789

(1) Supplementary financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.

Our Edmonton area courses opened almost three weeks later than in 2021 due to weather conditions. Despite the shorter golf season, Recreational Properties revenue grew by 5%. Decreased green fee revenue, with 10% fewer rounds played in 2022 was offset by growth in food and beverage revenues, which contributed $2.70 million in 2022 compared to $2.46 million in 2021. Gross margin remained stable at 41%.

Melcor operated golf courses in Alberta closed on October 28, 2022 and Kelowna closed on October 31, 2022.

	Ownership interest	Season opened	Season closed	Rounds of golf [1]
	2022			
Managed by Melcor:				
Lewis Estates (Edmonton)	**60%**	**April 22**	**October 28**	**31,138**
The Links (Spruce Grove)	**100%**	**April 22**	**October 28**	**29,894**
Black Mountain (Kelowna)	**100%**	**March 30**	**October 31**	**38,496**
Managed by a Third Party:				
Jagare Ridge (Edmonton)	**50%**	**April 30**	**October 16**	**23,914**
	2021			
	Ownership interest	Season opened	Season closed	Rounds of golf [1]
Managed by Melcor:				
Lewis Estates (Edmonton)	60%	April 2	October 28	34,823
The Links (Spruce Grove)	100%	April 2	October 28	33,407
Black Mountain (Kelowna)	100%	April 1	October 31	39,591
Managed by a Third Party:				
Jagare Ridge (Edmonton)	50%	April 14	October 17	28,958

[1] *Rounds of golf indicated at 100%.*

General and Administrative Expense

General and administrative (G&A) expense was up 5.0% over 2021. Community Development G&A was up as we saw increased activity and the reversal of various cost constraints initiatives that were in place in prior periods. Investment Properties and REIT division G&A increased due to non-recurring one time expenses as well as increased professional fees, which includes our third party property appraisals, legal and accounting fees.

Decreased revenue and higher expenses contributed to G&A at 9.5% of revenue compared to 6.9% in 2021. Management continues to prudently monitor and manage controllable expenses.

Income Tax Expense

The statutory tax rate for the year ended December 31, 2022 is 23% (2021 - 23%). The most significant adjustment impacting the 2022 effective tax rate was the fair value gain on REIT units, which is not subject to tax. 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 (after removal of fair value gain on Class B units).

Financing

As at December 31, 2022, our total general debt outstanding was $740.37 million compared to $716.91 million in 2021. The financing function is managed by our corporate division and decisions on how to deploy operating and acquisition funds are a centrally managed corporate decision. We use various forms of financing to fund our development and acquisition activities. We are often able to leverage the assets in one division to fund development opportunities in others.

A summary of our debt is as follows:

As at ($000s)		2022	2021
Melcor - revolving credit facilities	a	**96,839**	87,050
REIT - revolving credit facility	b	**31,634**	–
Project specific financing	c	**22,597**	40,758
Secured vendor take back debt on land inventory	d	**5,717**	11,794
Debt on investment properties and golf course assets	e	**539,110**	506,382
REIT - convertible debentures	f	**44,468**	70,929
		740,365	716,913

a) Melcor - revolving credit facilities

One of our primary sources of funding for development projects is an operating line of credit with a syndicate of major chartered banks. This line of credit margins our community development and qualifying property development assets.

We benefit by being able to borrow at rates fluctuating with prime. Our current cost of borrowing on a floating basis is low when compared to the historical cost of funds.

Under the terms of the facilities, Melcor pledges specific agreements receivable, specific lot inventory, undeveloped land inventory and a general security agreement as collateral. The facilities that mature on July 31, 2023 are renewable one year in advance of expiry and may be modified.

A summary of the credit facilities is as follows:

As at ($000s)		2022	2021
Credit limit approved	i)	**196,350**	191,410
Supportable credit limit	ii)	**176,264**	174,790
Credit used		**(96,839)**	(87,050)
Credit available		**79,425**	87,740

i. The portion of these loan limits that relate solely to Melcor Developments Ltd. is $120.00 million (2021 - $120.00 million) with the remaining balance pertaining to specific joint arrangements.

ii. Our supportable credit limit is calculated based on a formula and tests as required by the bank. The supportable credit limit is calculated based on agreements receivable balances and land inventory. As such, the supportable limit fluctuates in response to increases or decreases in these balance sheet accounts. Management monitors the supportable credit limit and keeps the bank informed at all times of its current collections and inventory production plans.

In the normal course of development operations, we are required to issue letters of credit as collateral for the completion of obligations pursuant to development agreements signed with municipalities. The credit facility described above also includes a letter of credit facility. Melcor's letter of credit balances, net of joint arrangement interests are:

As at ($000s)	2022	2021
Total letter of credit facility	**77,147**	75,947
Letters of credit issued	**(31,732)**	(27,050)
Available for issue	**45,415**	48,897

b) REIT - revolving credit facility

The REIT has an available credit limit based on the carrying values of specific investment properties up to a maximum of $35.00 million for general purposes, including a $5.00 million swingline sub-facility. An additional $15.00 million is available by way of an accordion feature, subject to lender approval. Depending on the form under which the facility is accessed, rates of interest will vary between prime plus 1.25% or bankers' acceptance plus 2.25% stamping fee. The agreement also provides the REIT with $5.00 million in available letters of credit which bear interest at 2.25%. The facility matures June 1, 2024.

As at December 31, 2022, we have an approved credit facility of $34.10 million (December 31, 2021 - $35.00 million). As at December 31, 2022 we had $31.63 million (December 31, 2021 - $nil) drawn from the facility (net of unamortized transaction fees and unamortized discount on bankers acceptance); and posted no letters of credit (December 31, 2021 - $nil).

c) Project specific financing

We use project financing to supplement our line of credit, or when certain projects allow us to access a lower cost of capital typically provided by project financing. This type of loan usually has floating rates of interest tied to prime.

The composition of our project specific financing is as follows:

As at ($000s)	2022	2021
Project specific debt on investment properties under development, with 6.95% interest rate (2021 - 2.75% to 2.95%)	**9,363**	38,471
Project specific debt on land, with interest rates between 7.83% and 8.42% (2021 - 3.83%)	**13,234**	2,287
	22,597	40,758
Weighted average effective interest rate	**7.72 %**	2.92 %

Project specific debt is due on demand.

d) Secured vendor take back debt on land inventory

This debt is primarily comprised of loans on the acquisition of land that are held by the land vendor and can have fixed or variable rates of financing with repayments over 2 years. Current debts mature in 2023.

As at ($000s)	2022	2021
Agreements payable with interest at the following contractual rates:		
Fixed rates of 4.00% - 4.25% (2021- 4.00% - 4.25%)	**5,717**	11,794
Weighted average effective interest rate	**4.13 %**	4.13 %

As at December 31, 2022 no debt was payable in US dollars (2021 - $nil).

e) Debt on investment properties and golf course assets

We use fixed rate, long-term mortgage financing on our investment property assets to raise capital. We are able to finance increased loan amounts from our existing portfolio of buildings as old mortgages renew and there is increased equity in our investment properties.

Debt on investment properties and golf course assets in the amount of $539.11 million, excluding fair value adjustments and deferred finance fees, reflects financing placed on investment properties that have a carrying value of $858.18 million.

Rates are negotiated at a pre-agreed benchmark bond rate plus a spread and are negotiated with different lenders to ensure competitive terms and multiple sources. New mortgage rates from Canadian lending institutions ranged from 2.79% to 5.90% in 2022.

The composition of our debt on investment properties and golf course assets is as follows:

As at ($000s)	2022	2021
Canadian mortgage at floating interest rate of prime plus 1%	**5,876**	–
Canadian mortgages at fixed rates	**366,176**	387,385
Canadian mortgages at variable rates	**116,840**	60,035
US mortgages at fixed rates	**47,114**	45,184
US mortgages at variable rates	**6,005**	17,315
	542,011	509,919
Fair value adjustment on interest rate swaps	**–**	(629)
Unamortized deferred financing fees	**(2,901)**	(2,908)
	539,110	506,382
Interest rate ranges	**(2.62% - 5.90%)**	(1.75% - 4.90%)
Weighted average effective interest rate	**3.75 %**	3.42 %

Loan maturity dates are spread out so as to reduce associated loan renewal risks. The following table represents cumulative loan amounts due for renewal over the next ten years:

Year	Loan renewal amount ($000s)	Weighted average interest rate	Number of loans
2023	78,487	4.28%	8
2024	48,549	3.79%	7
2025	50,482	3.67%	9
2026	79,800	3.17%	11
2027	26,319	4.61%	3
2028	57,387	3.96%	6
2029	71,421	3.36%	6
2030	36,100	2.82%	4
2031	36,309	2.83%	4
2032	57,157	4.48%	4

As at December 31, 2022, $53.12 million of debt was payable in US dollars (2021: $62.50 million).

f) REIT - convertible debentures

On December 21, 2017, the REIT issued a 5.25% extendible convertible unsecured subordinated debenture ("2017 Debenture") to the public for gross proceeds of $23.00 million, including $3.00 million issued pursuant to the exercise of an over-allotment option. The 2017 Debenture bore interest at an annual rate of 5.25% payable semi-annually in arrears on June 30 and December 31 in each year commencing June 30, 2018. The maturity date of the 2017 Debenture was December 31, 2022. The REIT paid off the 2017 Debenture in full on its maturity (December 31, 2022) using its revolving credit facility.

On October 29, 2019, the REIT issued a 5.10% extendible convertible unsecured subordinated debenture ("2019 Debenture") to the public for gross proceeds of $46.00 million, including $6.00 million issued pursuant to the exercise of an over-allotment option. The 2019 Debenture bears interest at an annual rate of 5.10% payable semi-annually in arrears on June 30 and December 31 in each year commencing December 31, 2019. The maturity date of the 2019 Debenture is December 31, 2024. The 2019 Debenture can be converted into trust units at the holders' option at any point prior to the maturity date at a conversion rate of 112.3596 trust units per one thousand principal amount of convertible debenture.

These debentures were a source of financing and the funds were used to complete property acquisitions.

Liquidity & Capital Resources

The following table represents selected information as at December 31, 2022, compared to December 31, 2021.

As at ($000s except as noted)	2022	2021
Cash & cash equivalents	**80,465**	59,920
Restricted cash	**2,761**	4,824
Accounts receivable	**12,487**	10,097
Agreements receivable	**97,232**	127,739
Revolving credit facilities	**128,473**	87,050
Accounts payable and accrued liabilities	**53,213**	50,476
Total assets	**2,167,050**	2,113,927
Total liabilities	**988,714**	997,458
Debt to equity ratio (1)	**0.84**	0.89

(1) Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 40 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.

We do not currently have any other plans to raise additional capital through the issuance of common shares, trust units, preferred shares or convertible debentures; however, under certain circumstances, we would consider these means to facilitate growth through acquisition or to reduce the utilized level on our credit facility.

Cash requirements

The following information about our contractual obligations and other commitments summarizes certain of our liquidity and capital resource requirements. The information presented includes legally committed capital expenditures.

Contractual obligations include:

		Payments due by period			
	Total	**Less than 1 year**	**1 to 3 years**	**4 to 5 years**	**After 5 years**
Debt on investment properties and golf course assets	542,012	91,523	117,708	112,349	220,432
Revolving credit facilities	128,473	128,473	–	–	–
Secured vendor take back debt on land inventory	5,717	5,717	–	–	–
Project specific financing	22,597	22,597	–	–	–
REIT debenture	46,000	–	46,000	–	–
Interest expense	89,765	25,315	31,605	16,812	16,033
Operating leases	410	182	228	–	–
Total contractual obligations	834,974	273,807	195,541	129,161	236,465

We also have a contractual obligation of $71.89 million on the non-controlling interest portion of REIT units as they are redeemable at the option of the holder.

Sources and uses of cash

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

	2022	**2021**
Cash flows from operating activities	**18,351**	72,822
Cash flows from (used in) investing activities	**18,330**	(17,678)
Cash flows from (used in) financing activities	**(17,259)**	(24,556)

Operating activities:

Cash from operations was down by $54.47 million in 2022. Net income, adjusted for non-cash items, contributed $58.30 million compared to $80.47 million in 2021 with the decrease attributable to lower revenue and margins generated by our Community Development division.

In 2022 we purchased land for $4.25 million (net of transaction costs) compared with land purchases of $3.04 million in 2021. Development activities resulted in $44.65 million in net cash outflows in 2022 compared to $35.08 million in net cash inflows in 2021. Current year payment of tenant incentives and direct leasing costs increased by $7.05 million over 2021.

Agreements receivables at year end were $97.23 million, down from $127.74 million as a result of the volume of plan registrations and sales in the forth quarter of 2022. This had a positive impact of cash in the year of $30.51 million compared to a negative impact of $54.40 million in 2021, when we saw a increase in year end agreements receivable over 2020. We also incurred $15.10 million in tenant incentives and direct leasing costs in 2022 to renew and secure new leases. These costs can vary year over year tenant on the mix of leasing that occurs.

Investment activities:
Cash from investing activities was $18.33 million, a positive swing of $36.01 million over 2021. During 2022 we sold 117 residential units in Phoenix, AZ for net proceeds of $35.00 million. This compares to proceeds in 2021 of $7.43 million.

We continue to invest in improving our asset base through value enhancing projects. Additions to investment properties include development activities in Property Development and enhancements to properties held in the Investment Properties and REIT operating divisions. In 2022 we invested $16.01 million in properties under development, property improvements and capitalized borrowing costs, compared with $22.81 million in 2021.

Financing activities:
Cash used in financing activities was down $7.30 million over 2021 due to draws on our revolving credit facilities of $41.42 million compared to $17.14 million in 2021. Included in the draws on our credit facility was the repayment of the 2017 Debentures for $22.98 million (included as a repayment of general debt on the statement of cash flows). General debt contributed a net cash inflow of $4.39 million in the current year through financings received and repayments made, compared to net cash outflows of $23.50 million in 2021.

During the year, we repurchased 1,777,662 shares for $21.44 million through a combination of daily and block purchases as allowed under our NCIB plan. These shares were subsequently canceled and returned to treasury. This compares to 244,726 shares purchased for $3.35 million and subsequently canceled in 2021.

In 2022, we paid dividends of $0.58 per share (2021 - $0.44 per share), for a total cash outflow of $18.66 million, compared to $14.53 million in 2021.

Subsequent to the year, $24.01 million (US$18.00 million) from the proceeds on the US residential unit sales was repatriated and used to pay down our line of credit.

Share Data

Melcor has been a public company since 1968 and trades under the symbol “MRD” on the Toronto Stock Exchange. As at December 31, 2022 there were 31,248,628 common shares issued and outstanding, 223,000 stock options, and 313,806 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 shares issued. As at March 16, 2023 there were 31,248,628 common shares issued and outstanding, 223,000 stock options, and 313,806 restricted share units.

Please refer to note 17 to the consolidated financial statements for information pertaining to our outstanding shares and options.

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, 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.

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. 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 December 22, 2022, Melcor filled the NCIB by purchasing the final shares bringing the total purchased to the maximum 1,641,627 shares allowed. The current NCIB period ends on March 31, 2023 and no additional shares can be purchased at this time.

Melcor REIT:
On April 1, 2021 the REIT commenced a normal course issuer bid 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.

Off Balance Sheet Arrangements

In the normal course of operations, Melcor engages in transactions that, under IFRS, are either not recorded on our consolidated statements of financial position or are in amounts that differ from the full contract amounts. The main off-balance sheet arrangements we make include the issuance of guarantees and letters of credit.

A discussion of our letter of credit facility arrangement can be found in the Financing section. Refer to note 20 to the consolidated financial statements for information pertaining to our guarantees and letters of credit.

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 applicable year-end financial statements, notes to the financial statements and management's discussion and analysis.

	2022				2021			
($000s)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	76,261	61,136	51,044	53,306	150,598	56,213	65,547	43,270
Net income (loss)	37,202	23,774	25,908	2,470	44,769	16,561	9,014	(14,033)
FFO (2)	22,297	16,012	11,853	10,697	42,311	12,516	16,326	10,174
Per Share								
Basic earnings (loss)	1.15	0.73	0.79	0.08	1.35	0.50	0.27	(0.42)
Diluted earnings (loss)	1.15	0.73	0.79	0.07	1.35	0.50	0.27	(0.42)
FFO basic (1)	0.70	0.49	0.36	0.33	1.28	0.38	0.49	0.31
FFO diluted (1)	0.71	0.49	0.36	0.32	1.28	0.38	0.49	0.31
Book value (1)	37.71	35.55	34.78	33.81	33.87	32.69	32.10	31.98

(1) Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 40 for further information.
(2) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 40 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, and construction is often completed with corresponding transfers in the fourth quarter.

Fourth Quarter

Three months ended December 31 ($000s)	2022	2021
Revenue	76,261	150,598
Cost of sales	(39,194)	(89,963)
Gross profit	37,067	60,635
General and administrative expense	(5,372)	(6,873)
Fair value adjustment on investment properties	21,801	9,330
Adjustments related to REIT units	1,815	(997)
Gain on sale of assets	3	24
Operating earnings	55,314	62,119
Interest income	524	125
Foreign exchange gain	1,109	76
Finance costs	(6,794)	(5,337)
Net finance costs	(5,161)	(5,136)
Income before income taxes	50,153	56,983
Income tax expense	(12,951)	(12,214)
Net income for the period	37,202	44,769
Earnings per share attributable to Melcor's shareholders:		
Basic earnings per share	1.15	1.35
Diluted earnings per share	1.15	1.35

Highlights of the fourth quarter include:

- Our Property Development division completed and transferred 3 buildings (17,137 sf) to Investment Properties.
- Our Community Development division registered 11 plans in 8 communities, which added 804 lots to inventory with 384 lots sold in Q4-2022. Included in the 804 lots is 234 lots in the US and 570 lots in Canada. This compares to 23 plan registrations in 14 communities adding 1,357 lots to inventory with 1,133 lots sold in Q4-2021. Included in the 1,357 lots was 277 lots in the US and 1,080 in Canada.
- Investment Properties sold the remaining 109 units at the Dakota's at Camelback (Arizona) for $31.24 million, net of transaction costs (US$23.22 million).
- The REIT entered into an unconditional agreement to sell an office building in Kelowna, BC for proceeds of $19.03 million, net of transaction costs. This was reclassified as held for sale during the quarter and subsequently closed on February 1, 2023.
- We completed buying back the maximum shares allowable (1,641,627) under our current NCIB on December 22, 2022.

Segmented information for the fourth quarter is as follows:

Three months ended December 31, 2022	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue	61,115	6,889	10,854	18,797	834	–	98,489	(22,228)	**76,261**
Cost of sales	(37,595)	(6,733)	(4,723)	(8,214)	(1,105)	–	(58,370)	19,176	**(39,194)**
Gross profit	23,520	156	6,131	10,583	(271)	–	40,119	(3,052)	**37,067**
General and administrative expense	(2,262)	(407)	(961)	(977)	(646)	(828)	(6,081)	709	**(5,372)**
Fair value adjustment on investment properties	–	2,376	26,212	(9,130)	–	–	19,458	2,343	**21,801**
Gain on sale of assets	–	–	–	–	3	–	3	–	**3**
Interest income	433	2	17	9	4	59	524	–	**524**
Segment earnings (loss)	21,691	2,127	31,399	485	(910)	(769)	54,023	–	**54,023**
Foreign exchange gain									**11,593**
Finance costs									**(17,278)**
Adjustments related to REIT units									**1,815**
Income before income taxes									**50,153**
Income tax expense									**(12,951)**
Net income for the period									**37,202**

Three months ended December 31, 2021	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Subtotal	Intersegment Elimination	Total
Revenue	123,922	30,918	9,501	18,542	698	–	183,581	(32,983)	150,598
Cost of sales	(77,475)	(30,900)	(4,343)	(8,009)	(987)	–	(121,714)	31,751	(89,963)
Gross profit	46,447	18	5,158	10,533	(289)	–	61,867	(1,232)	60,635
General and administrative expense	(1,831)	(603)	(777)	(738)	(657)	(2,976)	(7,582)	709	(6,873)
Fair value adjustment on investment properties	–	1,219	7,374	214	–	–	8,807	523	9,330
Gain on sale of assets	–	–	–	–	24	–	24	–	24
Interest income	111	–	–	10	–	4	125	–	125
Segment earnings (loss)	44,727	634	11,755	10,019	(922)	(2,972)	63,241	–	63,241
Foreign exchange gain									76
Finance costs									(5,337)
Adjustments related to REIT units									(997)
Income before income taxes									56,983
Income tax expense									(12,214)
Net income for the period									44,769

Outlook

Melcor owns a high quality portfolio of assets, including raw land, developed land inventory (residential lots and acres for multi-family and commercial development), income-producing properties and championship golf courses.

Alberta, our largest market, has undergone dramatic changes throughout the past few years, due to volatile oil prices, pandemic operating constraints and rising interest rates. We have diversified our business across asset class and geography, including investment in the US with raw land and commercial property acquisitions and the continued development of our community in Aurora, CO.

Inflation and interest rate increases have generally slowed the Canadian market however we have found stable demand for quality new homes and office and retail space. Alberta is projected to have Canada's highest GDP growth in 2023.

We expect to develop approximately 1,000 new single-family lots across our portfolio in 2023 to meet market demand. On the commercial side, retail activity remains steady and we expect that to continue in 2023. Although our 2022 US Community Development division did not provide us with strong results, we have a positive outlook for 2023.

Our business model has adapted to changing times and economic cycles over the years. We will maintain our disciplined, conservative approach to operations to ensure that we remain profitable while achieving our fundamental goals of protecting shareholder investment and sharing corporate profit with our shareholders.

With appropriate levels of serviced land inventory, movement of residential and commercial land through the municipal approvals process, steady occupancy rates and capacity on our operating facility, we remain well-positioned for the future.

Interest in the REIT

The REIT is an unincorporated, open-ended real estate investment trust established pursuant to a declaration of trust dated January 25, 2013, which was subsequently amended and restated May 1, 2013.

The REIT began operations on May 1, 2013 when trust units were issued for cash pursuant to the initial public offering (Offering or IPO). Units of the REIT trade on the Toronto Stock Exchange under the symbol MR.UN. The REIT is externally managed, administered and operated by Melcor pursuant to the property management and asset management agreements entered into in conjunction with the IPO.

As of March 16, 2023, Melcor holds a 55.4% (December 31, 2021 - 55.4% and December 31, 2022 - 55.4%) effective interest in the REIT through ownership of all Class B LP units of the partnership through an affiliate and a corresponding number of special voting units of the REIT. The Class B LP units are economically equivalent to, and are exchangeable for, trust units. Melcor is the ultimate controlling party.

As we retain control over the REIT, we consolidate the REIT and record 100% of its revenues, expenses, assets and liabilities. We reflect the public's 44.6% interest (December 31,2021 - 44.6% and 2022 - 44.6%) in the REIT as a financial liability.

Arrangements between Melcor and the REIT

Melcor continues to manage, administer and operate the REIT and its properties under an asset management agreement and property management agreement. The following summarizes services to be provided to the REIT and the compensation to be paid to Melcor.

Asset management agreement - we receive a quarterly management fee which is comprised of the following:

a. a base annual management fee calculated and payable on a quarterly basis, equal to 0.25% of the REIT's gross book value;
b. a capital expenditures fee equal to 5.0% of all hard construction costs incurred on capital projects in excess of $0.10 million;
c. an acquisition fee equal to 0.5% - 1.0% of the purchase price;
d. a financing fee equal to 0.25% of the debt and equity of all financing transactions completed for the REIT to a maximum of actual expenses incurred by Melcor.

Property management agreement - we receive a monthly fee which is comprised of the following:

a. a base fee of 3.0% of gross property revenue;
b. an upfront market fee payable on a transaction by transaction basis, but only for transactions where a third party leasing agent was not engaged. The Melcor Lease Fee structure shall represent current market terms in each particular market where leasing services are provided to the REIT.

IPO transaction costs - Costs incurred by Melcor in relation to the REIT's IPO were reimbursed by the REIT to the extent that these costs were eligible for capitalization against the unit issuance.

Upon consolidation we eliminate Class B LP Units, Class C LP Units, distributions on Class B LP Units, distributions on Class C Units, and fees earned under the asset management agreement and property management agreement.

Business Environment & Risks

A discussion of credit risk, liquidity risk and market risk can be found in note 29 to the consolidated financial statements.

The following is an overview of certain risk factors that could adversely impact our financial condition, results of operations, and the value of our common shares.

General Risks

We are exposed to the micro- and macro-economic conditions that affect the markets in which we operate and own assets. In general, a decline in economic conditions will result in downward pressure on Melcor's margins and asset values as a result of lower demand for the services and products we offer. Specifically, general inflation and interest rate fluctuations; population growth and migration; job creation and employment patterns; consumer confidence; government policies and global politics, regulations and taxation; and availability of credit and financing could pose a threat to our ongoing business operations. Improvements to these factors could have a positive impact on our results.

International economic forces and conditions will impact our business as our investment into the US grows. We adapt our business plan to reflect current conditions and we believe that we have sufficient resources to carry our operations through uncertain times.

We participate in joint arrangements under the normal course of business that may have an effect on certain assets and businesses. These joint arrangements may involve risks that would not otherwise be present if the third parties were not involved, including the possibility that the partners have different economic or business interests or goals. Also, within these arrangements, Melcor may not have sole control of major decisions relating to these assets and businesses, such as: decisions relating to the sale of the assets and businesses; timing and amount of distributions of cash from such entities to Melcor and its joint arrangement partners; and capital expenditures.

Adverse Global Market, Economic and Political Conditions

Adverse Canadian and global market, economic and political conditions, including credit market volatility and general economic uncertainty, unexpected or ongoing geopolitical events (including disputes between nations, war, terrorism or other acts of violence), could have a material adverse effect on our business, results of operations and financial condition. Potential impacts include the value of our properties, the availability of financing on favourable terms, our ability to make principal and interest payments on, or refinance, any outstanding debt when due, the occupancy rates in our properties, and our tenants ability to enter into new leases or satisfy rental payments under existing leases.

Real Estate Risk

Real estate investments are subject to varying levels of risk. These risks include changes to general economic conditions, government and environmental regulations, local supply/demand, and competition from other real estate companies. Real estate assets are relatively illiquid in down markets. As a result, Melcor may not be able to rebalance its portfolio in response to changing economic or investment conditions.

Other real property risks include:

- The value of the property and any improvements made to it;
- Rollover of leases and the ability to rent unleased suites;
- Financial stability of tenants and their ability to pay rent and fulfill their lease obligations; and
- Geographic concentration.

Cash available for dividends will be adversely affected if a significant number of tenants are unable to meet their obligations under their leases or if a significant amount of space in our properties becomes vacant and cannot be leased on economically favourable lease terms.

General declines in real estate markets, including changes in demand for real estate resulting from COVID-19 and related economic conditions, will impact fair values reported or the cash flows associated with owning or disposing of such properties. Market assumptions applied for valuation purposes do not necessarily reflect Melcor's specific history or experience, and the conditions for realizing the fair values through a sale may change or may not be realized. Consequently, there is a risk that the actual fair values may differ, and the differences may be material. In addition, there is an inherent risk related to the reliance on and use of a single appraiser as this approach may not adequately capture the range of fair values that market participants would assign to the real estate properties. Certain ratios and covenants could be negatively affected by downturns in the real estate market and could have significant impact on the REIT's operating revenues and cash flows, as well as the fair values of the real estate properties.

Concentration of Assets Risk

The majority of our assets are located in Alberta. Adverse changes in economic conditions in Alberta may have a material adverse effect on our business, cash flows, financial condition and results of operations and ability to pay dividends. The Alberta economy is sensitive to the price of oil and gas. To mitigate against this risk, we endeavor to diversify our revenue mix by product and location. On the flip-side, growth in the price of oil and gas may have a positive affect. Melcor's shareprice has traditionally tracked with oil prices.

Financing & Interest Rates Risk

We use debt and other forms of leverage in the ordinary course of business to enhance returns to shareholders. There is a risk that interest rates will continue to increase, which could result in a significant increase in the amount required to service debt. Most leveraged debt within the business has recourse only to the assets being financed or margined and has no recourse to Melcor. We are subject to general risks associated with debt financing.

The following risks may adversely affect our financial condition and results of operations:

- Cash flow may be insufficient to meet required payments of principal and interest;
- Payments of principal and interest on borrowings may leave us with insufficient cash resources to pay operating expenses;
- We may not be able to refinance indebtedness on our assets at maturity due to company and market factors;
- The fair market value of our assets;
- Liquidity in the debt markets;
- Financial, competitive, business and other factors, including factors beyond our control;
- Refinancing terms that are not as favourable as the original terms of the related financing.

We attempt to mitigate these risks through the use of long-term debt and diversifying terms and maturity dates.

The terms of various credit agreements and other financing documents require that we comply with a number of financial and other covenants, such as maintaining debt service coverage and leverage ratios, and minimum insurance coverage. These covenants may limit our flexibility in our operations, and breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness even if we had satisfied our payment obligations.

If we are unable to refinance assets/indebtedness on acceptable terms, or at all, we may need to utilize available liquidity, which would reduce our ability to pursue new investment opportunities, or require that we dispose of one or more of our assets on disadvantageous terms. In addition, unfavourable interest rates or other factors at the time of refinancing could increase interest expense.

A large proportion of our capital is invested in physical, long-lived assets, which can be difficult to liquidate, especially if local market conditions are poor. This circumstance could limit our ability to diversify our portfolio of assets promptly in response to changing economic or investment conditions.

We enter into financing commitments in the normal course of business and, as a result, may be required to fund these, particularly through joint arrangements. If we are unable to fulfill any of these commitments, damages could be pursued against Melcor.

Environmental Risk

Our development activities are subject to various requirements (including federal, provincial and municipal laws) relating to the protection of the environment. For example, environmental laws or local bylaws may apply to a development site based on its environmental condition, present and former uses, and its adjoining properties. Environmental laws and conditions may result in delays, cause Melcor to incur significant compliance and other costs, and can severely restrict or prevent development in environmentally sensitive regions or areas.

Under these requirements, we could be, or become, liable for environmental or other harm, damage or costs, including with respect to the release of hazardous, toxic or other regulated substances into the environment and/or affecting persons, and the removal or other remediation of hazardous, toxic or other regulated substances that may be present at or under our properties (including commercial buildings, land inventory and development sites).

Such requirements often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such substances. Additional liability may be incurred by Melcor with respect to the release of such substances from our properties to properties owned by third parties, including properties adjacent to our properties or with respect to the exposure of persons to such substances. The failure to remove or otherwise address such substances may materially adversely affect our ability to sell such property, maximize the value of such property or borrow using such property as collateral security, and could potentially result in claims or other proceedings against Melcor.

We employ a rigorous due diligence process prior to acquiring raw land, development sites or investment properties to mitigate our exposure to these potential issues. It is our operating policy to obtain, or be entitled to rely on, a Phase I environmental site assessment prior to acquiring property or land. Where a Phase I environmental site assessment warrants further investigation, it is our operating policy to conduct further environmental investigations. Although such environmental assessments provide Melcor with some level of assurance about the condition of the property, we may become subject to liability for undetected contamination or other environmental conditions of our properties against which we cannot insure, or against which we may elect not to insure where insurance premium costs are considered to be disproportionate to the assessed risk, which could have a material adverse effect on our business, cash flows, financial condition and results of operations and ability to make distributions to unitholders.

Environmental laws and other requirements can change and we may become subject to more stringent environmental laws or other requirements in the future. Compliance with more stringent environmental laws or requirements, the identification of currently unknown environmental issues or an increase in the costs required to address a currently known condition may have a material adverse effect on our business, cash flows, financial condition and results of operations and ability to pay dividends to shareholders.

Melcor bears the risk of assessment, remediation or removal of such contamination, hazardous substances or other residual pollution. The discovery of any such residual pollution on the sites and/or in the buildings, particularly in connection with the lease or sale of properties or borrowing using the real estate as security, could trigger claims for rent reductions or termination of leases for cause, for damages and other breach of warranty claims against Melcor. The remediation of any contamination and the related additional measures we would have to undertake could have a materially adverse effect and could involve considerable additional costs that we may have to bear. Melcor will also be exposed to the risk that recourse against the polluter or the previous owners or occupants of the properties might not be possible, for example, because they cannot be identified, no longer exist or have become insolvent. Moreover, the existence or even the mere suspicion of the existence of contamination, hazardous materials or other residual pollution can materially adversely affect the value of a property and our ability to lease or sell such a property.

We employ a rigorous due diligence process, including obtaining a Phase I environmental site assessment, prior to acquiring property to mitigate our exposure to these potential issues.

Pandemics, Natural Disasters or Other Unanticipated Events

The occurrence of pandemics, natural disasters, or other unanticipated events, in any of the areas where we or our partners and suppliers operate could disrupt operations. In addition, pandemics, natural disasters or other unanticipated events could have a material adverse effect on our business, financial condition, results of operations and cash flows. The COVID-19 pandemic resulted in restrictive government measures. Future outbreaks of viruses or other contagions, epidemic or pandemic diseases including subsequent outbreaks of COVID may lead to prolonged voluntary or mandatory building and/or business closures, restrictions on travel and gatherings, quarantines, self-isolation and physical distancing. The impact of these measures may cause a general shutdown of economic activity and disrupt workforce and business operations in the regions where we operate. An occurrence such as this, including the COVID-19 pandemic, could have material adverse effects and increased risk, including but not limited to:

- negative impact on pricing and availability of Canadian debt and equity capital markets
- material reduction in rental revenue and related collections due to financial hardship and government ordered closures of certain business
- reduced demand for commercial real estate leading to a material increase in vacancy and decline in revenue
- trading price of Melcor's securities
- negative impact to real estate valuations from declining revenue and lack of market activity
- ability to access capital markets at a reasonable cost
- uncertainty regarding delivering services due to illness, Melcor or government imposed isolation programs, restrictions on the movement of personnel, closures and supply chain disruptions
- impact of additional legislation, regulation, fiscal and monetary policies and other government interventions

This is not an exhaustive list of all risk factors. To mitigate these risks, we have a comprehensive health and safety program and have expanded it to include pandemics. We have introduced new policies and practices both internally and at the properties that we manage to reduce the spread of COVID-19.

Cyber Security Risk

Cyber security has become an increasingly problematic issue for issuers and businesses in Canada and around the world, including for Melcor and the real estate industry in general. Cyber attacks may focus on financial fraud, obtaining sensitive data for inappropriate use or to disrupt business operations. A cyber incident is any adverse event that threatens the confidentiality, integrity or availability of our information resources, including intentional or unintentional events to gain unauthorized access to information systems to disrupt operations, corrupt data or steal confidential information.

As our reliance on technology has increased, so has our risk of a cyber security breech. The primary risks that could directly result from the occurrence of a cyber incident include operational interruption, damage to our reputation, damage to our business relationships with tenants and suppliers, disclosure of confidential information regarding our tenants, employees and third parties with whom we do business, and may result in negative consequences, including remediation costs, loss of revenue, additional regulatory scrutiny and litigation.

We completed a cyber security assessment with a third party consultant which resulted in an action plan that we are working through. Progress is reported to the Audit Committee quarterly. Some of the actions we have implemented to remain resilient include processes, procedures and controls to help mitigate these risks, including installing firewalls and antivirus programs on our networks, servers and computers, staff training, and cyber security insurance. However, these measures, as well as our increased awareness of the potential risk of a cyber incident, does not provide assurance that our efforts will be effective or that attempted security breaches or disruptions will not be successful or damaging.

Volatile Market Price of the Melcor's Securities

Financial markets have experienced significant price and volume fluctuations in recent years. In many cases volatile market movement impacts a wide variety of issuers unrelated to the operating performance, underlying asset values or prospects of such issuers. The market price of Melcor's securities may decline even if our financial performance, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in losses. As well, certain institutional investors may base their investment decisions on consideration of Melcor's environmental, governance and social practices and performance according to such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited investment or no investment in Melcor's securities by those institutions. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil exist for a protracted period of time, our operations and the trading price of our securities could be adversely affected.

Insurance

Melcor carries comprehensive general liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for similar properties. There are, however, certain types of risks, generally of a catastrophic nature, such as wars or environmental contamination, which are either uninsurable or not insurable on an economically viable basis. Should an uninsured or underinsured loss occur, we could lose our investment in, and anticipated profits and cash flows from, one or more of our properties, but Melcor would continue to be obliged to repay any recourse mortgage indebtedness on such properties.

Community Development

The Community Development division is subject to risks influenced by the demand for new housing in the regions where we operate. Demand is primarily impacted by interest rates, growth in employment, migration, general economic conditions, new family formations and the size of these families. The division's ability to bring new communities to the market is impacted by municipal regulatory requirements and environmental considerations that affect the planning, subdivision and use of land. The planning and approval process can take several years. During this period, the market conditions in general and/or the market for lots in the size and price range in our developments may change dramatically.

In addition, supply chain delays and other issues have recently caused volatility in pricing and delivery times for homes under construction.

The division manages our assets to ensure that we have adequate future land assets to develop by ensuring appropriate approvals are in place and by balancing our inventory of land between long, medium and short-term development horizons against the cost of acquiring and holding these lands, and by locking in construction and material pricing early.

Property Development

The Property Development division is subject to risks that would normally be associated with the construction industry (such as fluctuating labour, material and consulting costs), combined with the normal leasing risks that the Investment Property division faces (see below).

The division manages the overall costs of projects, project financing requirements, construction quality, and the suitability of projects in relation to the needs of the tenants who will occupy the completed building. The division may be subject to additional holding costs if an asset is not leased out on a timely basis.

Investment Properties and REIT

The Investment Properties and REIT divisions are subject to the market conditions in the geographic areas where we own and manage properties. Where strong market conditions prevail, we are able to achieve higher occupancy rates. Market conditions are influenced by outside factors such as government policies, demographics and employment patterns, the affordability of rental properties, competitive leasing rates and long-term interest and inflation rates. Refer to Business Environment & Risks section of the REIT's annual MD&A filed on SEDAR and incorporated by reference.

Recreational Properties

The results of golf course operations may be adversely affected by weather, which limits the number of playing days; competition from other courses; the level of disposable income available to customers to spend on recreational activities; the popularity of the sport; and the cost of providing desirable playing conditions on the course.

While weather is outside our control, we manage our golf courses to provide consistent playing conditions to support the popularity of our courses. We also focus on growing revenue related to food and beverage and event rentals.

Other Financial Information

Critical Accounting Estimates

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with IFRS. In applying IFRS, we make estimates and assumptions that affect the carrying amounts of assets and liabilities, disclosure of contingent liabilities and the reported amount of income for the period. Actual results could differ from estimates previously reported. We have discussed the development, selection and application of our key accounting policies, and the critical accounting estimates and assumptions they involve, with the Audit Committee and the Board of Directors.

Our significant accounting policies and accounting estimates are contained in the consolidated financial statements. Please refer to note 3 to the consolidated financial statements for a description of our accounting policies and note 5 and 6 for a discussion of accounting estimates and judgments.

Changes in Accounting Policies and Adoption of IFRS

Refer to note 4 to the consolidated financial statements for information pertaining to accounting pronouncements that will be effective in future years.

Subsequent Events

Please refer to note 31 to the consolidated financial statements for information pertaining to subsequent events.

Joint Arrangement Activity

We record only our proportionate share of the assets, liabilities, revenue and expenses of our joint arrangements. Refer to note 24 to the consolidated financial statements for a listing of our current joint arrangements. The following table illustrates selected financial data related to joint arrangements at 100% as well as the net portion relevant to Melcor.

Joint arrangement activity at 100% ($000s)	2022	2021
Revenue	**180,699**	192,650
Earnings	**65,828**	62,219
Assets	**1,057,719**	1,081,983
Liabilities	**458,591**	472,594

Joint arrangement activity at Melcor's ownership % ($000s) [1]	2022	2021
Revenue	**81,364**	90,823
Earnings	**29,055**	29,608
Assets	**476,009**	488,178
Liabilities	**195,666**	205,691

[1] *Ownership in joint arrangements varies from 7% - 60%.*

Internal Control over Financial Reporting and Disclosure Controls

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant and material information is gathered and reported to senior management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), in a timely manner. Under the supervision of the CEO and CFO, we carried out an evaluation of the effectiveness of our disclosure controls and procedures as defined in Canada by National Instrument 52-109 as of December 31, 2022. Based on this evaluation, our CEO and CFO concluded that the design and operation of our disclosure controls and procedures related to Melcor and its subsidiaries and joint arrangements were effective.

Internal control over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management designed these controls based on the criteria set out in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013 Framework). The CEO and CFO have certified that the internal controls over financial reporting were properly designed and effective for the year ended December 31, 2022.

There has been no change to Melcor's disclosure controls and procedures or internal control over financial reporting during the year ended December 31, 2022, that materially affected, or is reasonably likely to materially affect, Melcor's internal control over financial reporting.

Notwithstanding the foregoing, no assurance can be made that the Melcor's controls over disclosure and financial reporting and related procedures will detect or prevent all failures of people to disclose material information otherwise required to be set forth in Melcor's reports.

Non-GAAP and Non-standard Measures

Melcor's financial statements are prepared in accordance with IFRS. 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 for FFO we have included 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:

Calculations

Net operating income (NOI): NOI is a non-GAAP financial measure and is 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 as follows:

Investment Properties

($000s)	Three-Months		Year Ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Segment earnings [1]	**31,399**	11,755	**48,097**	31,077
Fair value adjustment on investment properties	**(26,212)**	(7,374)	**(25,663)**	(10,850)
General and administrative expenses	**961**	777	**3,162**	2,409
Interest income	**(17)**	–	**(31)**	(1)
Amortization of operating lease incentives	**447**	410	**1,620**	1,624
Straight-line rent adjustments	**(239)**	(200)	**(2,237)**	(963)
Divisional NOI	**6,339**	5,368	**24,948**	23,296

(1) Refer to note 25 to the consolidated financial statements

REIT

($000s)	Three-Months		Year Ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Segment earnings [1]	**485**	10,019	**27,723**	43,710
Fair value adjustment on investment properties	**9,130**	(214)	**11,995**	(2,879)
General and administrative expenses	**977**	738	**3,358**	2,953
Interest income	**(9)**	(10)	**(31)**	(30)
Amortization of operating lease incentives	**962**	1,251	**3,725**	4,218
Straight-line rent adjustments	**(85)**	(144)	**(451)**	(208)
Divisional NOI	**11,460**	11,640	**46,319**	47,764

(1) Refer to note 25 to the consolidated financial statements

Further discussion over NOI can be found in the Investment Property and REIT Divisional Results sections starting on page 20 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 starting on page 20 of the MD&A.

Fair value of investment properties: Fair value of investment properties in the REIT Divisional results section of the MD&A starting on page 23 is a supplementary financial measure and is calculated as the sum of the balance sheet balances for investment properties assets held for sale and other assets (TI's and SLR).

Gross margin (%): Gross margin percent is a supplementary that indicates the relative efficiency with which we earn revenue. This ratio is calculated by dividing gross profit by revenue. Please refer to the 2022 Highlights section on page 11 of the MD&A for further discussion.

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. Please refer to the 2022 Highlights section on page 11 of the MD&A for further discussion.

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. Please refer to the 2022 Highlights section on page 11 of the MD&A for further discussion.

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 on page 29 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 on page 15 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 on page 15 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 on page 14 of the MD&A and in the tables below:

Consolidated

($000s)	Three-Months		Year Ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Net income for the year	**37,202**	44,769	**89,354**	56,311
Amortization of operating lease incentives	**1,941**	2,238	**7,561**	8,160
Fair value adjustment on investment properties	**(21,801)**	(9,330)	**(21,554)**	(19,370)
Depreciation on property and equipment	**209**	227	**1,350**	1,334
Stock based compensation expense	**(6)**	370	**841**	1,132
Non-cash financing (costs) recoveries	**(607)**	(668)	**(8,518)**	3,479
Gain on sale of asset	**(3)**	(24)	**(40)**	(151)
Deferred income taxes	**8,214**	5,288	**8,225**	4,684
Fair value adjustment on REIT units	**(2,852)**	(559)	**(16,360)**	25,748
FFO	**22,297**	42,311	**60,859**	81,327

Investment Properties

($000s)	Three-Months		Year Ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Divisional income for the year (1)	**31,399**	11,755	**48,097**	31,077
Fair value adjustment on investment properties	**(26,212)**	(7,374)	**(25,663)**	(10,850)
Amortization of operating lease incentives	**447**	410	**1,620**	1,624
Divisional FFO	**5,634**	4,791	**24,054**	21,851

(1) Refer to note 25 to the consolidated financial statements

REIT

($000s)	Three-Months		Year Ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Divisional income for the year (1)	**485**	10,019	**27,723**	43,710
Fair value adjustment on investment properties	**9,130**	(214)	**11,995**	(2,879)
Amortization of operating lease incentives	**962**	1,251	**3,725**	4,218
Divisional FFO	**10,577**	11,056	**43,443**	45,049

(1) Refer to note 25 to the consolidated financial statements

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 on page 14 of the MD&A for further discussion.