Management's Discussion & Analysis

May 10, 2023

The following discussion of Melcor Developments' (Melcor's) financial condition and results of operations should be read in conjunction with the condensed interim consolidated financial statements and related notes for the three months ended March 31, 2023 and management's discussion & analysis (MD&A) and consolidated financial statements for the fiscal year ended December 31, 2022.

The financial statements underlying this MD&A, including 2022 comparative information, have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting, unless otherwise noted. All dollar amounts included in this MD&A are Canadian dollars unless otherwise specified.

Melcor's Board of Directors approved the content of this MD&A on May 10, 2023 on the recommendation of the Audit Committee.

Other Information

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

Non-standard Measures

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

Forward-looking Statements

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

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

This 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 and the updated risk disclosure contained in the Business Environment & Risks section contained in this MD&A.

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

TABLE OF CONTENTS

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.

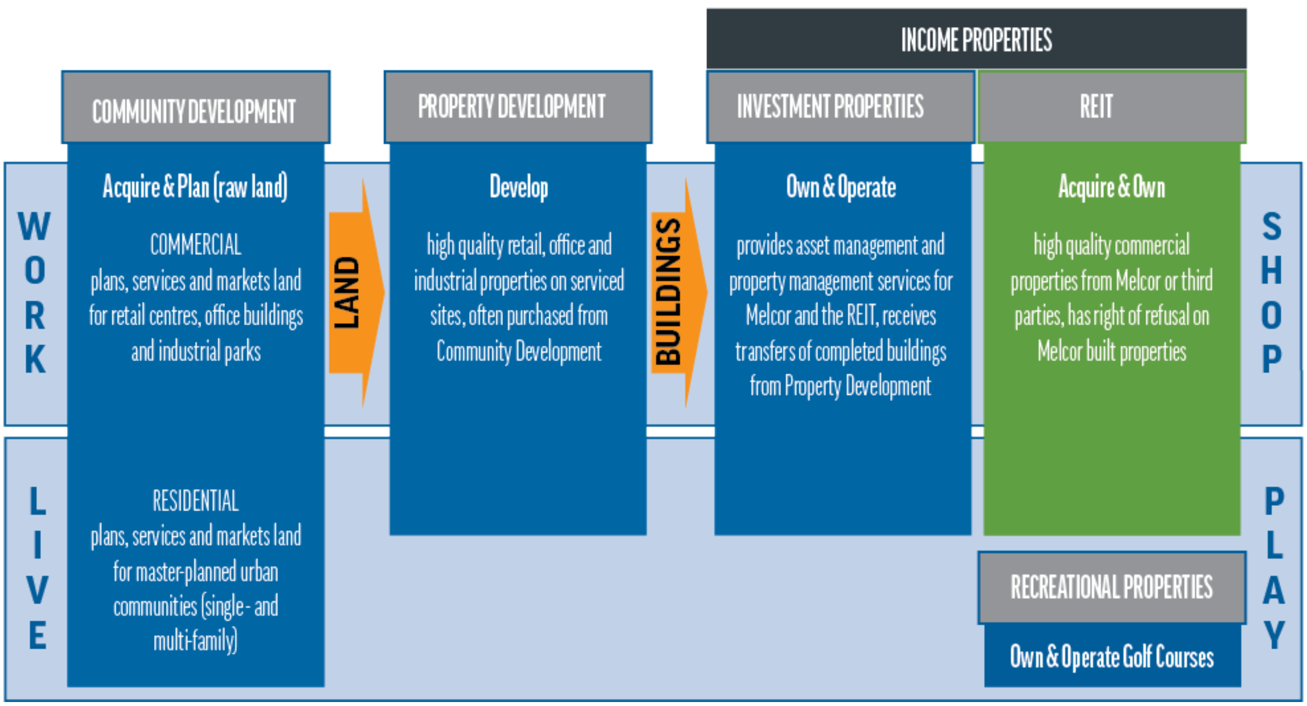
Since 1923, our focus has been the business of real estate. We've built over 170 communities and commercial projects across western Canada since the 1950s and have helped to shape much of Alberta's landscape. We manage 4.73 million square feet (sf) in commercial real estate assets and 473 residential 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 $2.11 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 asset



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.

Glossary of Acronyms

Common Acronyms			
FFO	funds from operations	**IFRS**	international financial reporting standards
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

First Quarter Highlights

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

($000s except as noted)	Three months ended March 31		
	2023	2022	Change %
Revenue	**36,077**	53,306	(32)
Gross margin[1]	**50.5 %**	47.2 %	7
Net income	**2,153**	2,470	(13)
Net margin[1]	**6.0 %**	4.6 %	30
FFO[2]	**7,045**	10,697	(34)
Per Share Data ($)			
Basic earnings	**0.07**	0.08	(13)
Diluted earnings	**0.07**	0.07	–
FFO[3]	**0.23**	0.33	(30)
Dividends	**0.16**	0.14	14

As at ($000s except share and per share amounts)	**31-Mar-2023**	31-Dec-2022	Change %
Total assets	**2,112,238**	2,167,050	(2.5)
Shareholders' equity	**1,175,891**	1,178,336	(0.2)
Total shares outstanding	**31,248,628**	31,248,628	–
Per Share Data ($)			
Book value [(3)]	**37.63**	37.71	(0.2)

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

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

The market has been challenged by inflation and higher interest rates over the past year. Our Income Properties divisions contributed 78% of revenue in Q1-2023 compared to 53% in 2022. Occupancy stayed consistent at 88% (December 31, 2022: 88%) and we have been actively pursuing and securing new leases across all asset classes. Our year-to-date retention for REIT was strong at 95%. Our Property Development division continues to pre-lease space to kick start new commercial development, thus building our future income property asset base.

Demand for homes remained stable across our geographically dispersed Community Development division contributing to both sales and construction activity. The US community development model differs from Canadian markets, with the majority of revenue occurring in a single quarter. Production builders buy lots in bulk and then build and sell the homes to consumers. No US lot sales closed in the quarter, but we do expect sales to close in 2023.

On February 1, 2023 Melcor REIT sold Kelowna Business Centre, an office building located in Kelowna, BC for gross proceeds of $19.50 million. This asset has been owned by the REIT since 2013 and was a strategic sale that enabled the REIT to pay down its line of credit while also achieving a good return on investment for unitholders.

Overall revenue from our income producing properties was up 1% in Q1-2023 despite the sale of the Kelowna Business Centre. This is due to slight increases in weighted average base rents in both our Canadian and US markets, and improved Canadian occupancy rates.

FINANCIAL HIGHLIGHTS

Revenue was down 32% to $36.08 million in Q1-2023 (Q1-2022: $53.31 million). Our Q1-2023 results were inline with expectation. The real estate industry is impacted by the cyclical nature of development, demand for product, the timing of raw and multi-family land sales and lot registrations. Lot sales, which have a significant impact on quarterly results, are uneven by nature and it is difficult to predict when they will close.

FFO was down 34% or $3.65 million in the quarter. The reduction of FFO is a direct result of the reduction in revenue and higher net finance costs, offset by a reduction in general and administrative expenditures over Q1-2022.

Net income was $2.15 million in Q1-2023 compared to $2.47 million in Q1-2022. Net income is significantly impacted by swings in non-cash fair value adjustments on investment properties, REIT units and the revaluation of interest rate swaps and the conversion feature on our convertible debenture. The change in the REIT's unit price has a counter-intuitive impact on net income as an increase in unit value decreases net income. In Q1-2023 the fair value adjustment on REIT units swung by $8.01 million over Q1-2022. These gains are driven by market forces outside of Melcor's control and are a key reason we focus on FFO as a truer measure of our financial performance.

DIVISIONAL OPERATING HIGHLIGHTS

The **Community Development** division saw modest sales activity in our Canadian markets, with the Edmonton region contributing the largest sales volume. Year-to-date, we sold 82 single-family lots compared to 288 last year. We continue to move new communities and additional phases in existing neighbourhoods through the municipal approval process. Our Harmony community in Denver, CO is the largest land development project in our US region. Sales in this area are often sold in bulk and thus result in lumpy sales being realized in this region. No lots have been sold in the US year-to-date.

The **Property Development** division currently has 74,284 sf in 3 projects (Chestermere Station, Woodbend Market and Greenwich) under construction. Construction and leasing activity resulted in fair value gains of $0.32 million ($0.33 million in Q1-2022).

Total GLA under management varies period over period as a result of both property transfers and remeasures of property that typically occur on lease transfers and/or renewals. Revenue from our **Income Properties** continued to produce stable results in both the quarter and year-to-date. GLA in 2023 was also impacted by the disposition of Kelowna Business Center in Q1-2023, which was 71,629 sf.

We sold 3 residential units in the US in Q1-2023. Improved occupancy on our Canadian assets and REIT owned properties contributed to revenue growth.

The investment properties portfolio fair value decreased $3.53 million in Q1-2023. We had 8 properties (legal phases) valued by external valuation professionals in the quarter. Fair value is also impacted by increased spend on tenant incentives that did not have a corresponding increase in fair value.

Our golf courses (**Recreational Properties**) opened subsequent to the quarter. Recreational properties revenue is from food and beverage sales.

RETURNING VALUE

We continue to return value to our shareholders and unitholders:

Melcor Developments:

- We paid a quarterly dividend of $0.16 per share on March 31, 2023 to shareholders of record on March 24, 2023.
- On May 10, 2023 we declared a quarterly dividend of $0.16 per share, payable on June 30, 2023 to shareholders of record on June 15, 2023. The dividend is an eligible dividend for Canadian tax purposes.

We have been paying dividends since 1969.

Melcor REIT:

- The REIT paid monthly distributions of $0.04 per unit in Q1-2023.
- Subsequent to the quarter, the REIT declared distributions for April, May and June as follows:

Month	Declaration Date	Record Date	Distribution Date	Distribution Amount
April 2023	April 28, 2023	April 28, 2023	May 15, 2023	$0.04 per unit
May 2023	May 31, 2023	May 31, 2023	June 15, 2023	$0.04 per unit
June 2023	June 30, 2023	June 30, 2023	July 14, 2023	$0.04 per unit

The REIT has been paying distributions since inception in 2013.

REVENUE & MARGINS

Revenue was down 32% to $36.08 million due to the large Community Development contribution to Q1-2022 revenue. Community Development revenue varies quarter over quarter due to the timing of lot sales and plan registrations which often happen in the latter half of the year following the construction season. Revenue from single-family lot sales in Canada was $6.20 million, down from $21.48 million in Q1-2022. Community Development division revenue is highly dependent on the demand for new homes in the regions where we hold land, the timing of raw, commercial and multi-family land sales, and the timing of registration on single-family lots.

Our Income Properties (Investment Properties and REIT) accounted for 83% of year-to-date revenue after intersegment eliminations compared with 55% in Q1-2022. Q1-2023, Income Properties revenue was $29.80 million compared with $29.57 million in Q1-2022 and gross margin was 56% (Q1-2022: 58%). The sale of the Kelowna Business Centre was offset by an increase in Canadian occupancy, and WABR in both our Canadian and US market.

Consolidated gross margin increased to 51% in Q1-2023 (Q1-2022: 47%). This increase is due to a shift in proportionate gross profit contributed from the income-generating divisions compared to prior year. Our IP and REIT divisions tend to generate higher margins than our Community Development division.

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

Revenue and net income can also fluctuate significantly from quarter to quarter due to the timing of plan registrations, the cyclical nature of real estate and construction markets, and the mix of lot sales and product types. The growth of our income-generating divisions offsets this cyclicality and has been a key diversification strategy over the past decade.

Funds From Operations (FFO)

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

Below is a reconciliation of net income to FFO:

($000s)	Three months ended March 31		
	2023	2022	Change %
Net income for the period	**2,153**	2,470	(13)
Amortization of tenant incentives	**2,320**	1,407	65
Fair value adjustment on investment properties	**2,484**	2,522	(2)
Depreciation on property and equipment	**145**	156	(7)
Stock based compensation expense	**230**	117	97
Non-cash finance costs	**2,778**	(1,472)	(289)
Deferred income taxes	**(732)**	(181)	304
Fair value adjustment on REIT units	**(2,333)**	5,678	(141)
FFO[1]	**7,045**	10,697	(34)
FFO per share[2]	**0.23**	0.33	(30)

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

FFO was down 34% or $3.65 million in the quarter over Q1-2022. The reduction in FFO was a direct result of the reduction in Community Development revenue, and the increase in net finance costs due to interest rate hikes. This was offset by a slight reduction of general and administrative expenditures and higher interest income compared to Q1-2022.

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

Divisional Results

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

- Community Development, which acquires raw land for future commercial and residential community development;
- Property Development, which develops high-quality retail, office, 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 38 income-producing properties; and
- Recreational Properties, which owns and operates championship golf courses associated with Melcor residential communities.

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

The following table summarizes the results of our operating divisions:

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Three months March 31,		Three months March 31,		Three months March 31,		Three months March 31,		Three months March 31,	
($000s except as noted)	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Revenue	**8,218**	25,993	**17**	18	**10,812**	10,604	**18,990**	18,965	**70**	113
Portion of total revenue %	**22 %**	47 %	**– %**	– %	**28 %**	19 %	**50 %**	34 %	**– %**	– %
Cost of sales	**(5,007)**	(16,073)	**–**	–	**(4,613)**	(4,265)	**(8,352)**	(8,009)	**(498)**	(444)
Gross profit	**3,211**	9,920	**17**	18	**6,199**	6,339	**10,638**	10,956	**(428)**	(331)
Gross margin %[1]	**39 %**	38 %	**100 %**	100 %	**57 %**	60 %	**56 %**	58 %	**(611)%**	(293)%
Portion of total margin[1]	**16 %**	37 %	**– %**	– %	**32 %**	24 %	**54 %**	41 %	**(2)%**	(1)%
General and administrative expense	**(1,842)**	(1,822)	**(519)**	(736)	**(782)**	(1,010)	**(779)**	(788)	**(393)**	(365)
Fair value adjustment on investment properties	**—**	—	**322**	328	**(1,939)**	(218)	**(1,586)**	(3,662)	**–**	–
Interest income	**545**	92	**1**	–	**22**	1	**19**	7	**–**	–
Segment earnings	**1,914**	8,190	**(179)**	(390)	**3,500**	5,112	**8,292**	6,513	**(821)**	(696)

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

Community Development

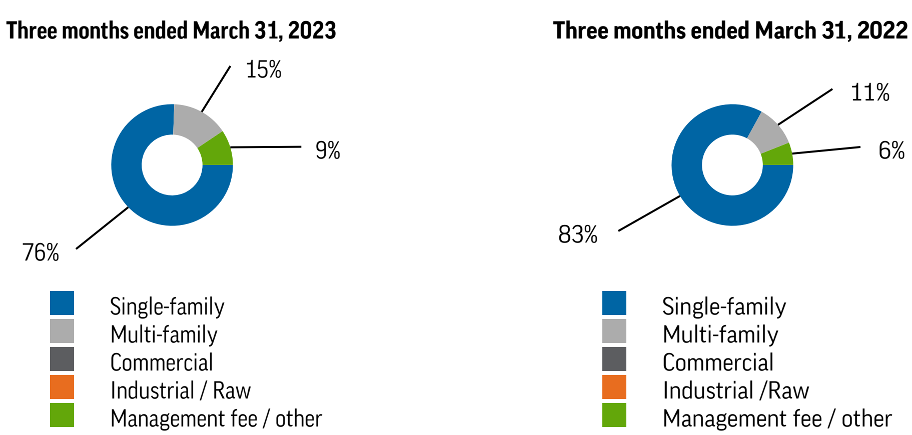
Our Community Development division acquires raw land in strategic urban corridors and subsequently plans, develops and markets this land as builder-ready urban communities and large-scale commercial and industrial centres. This process includes identifying and evaluating land acquisitions, site planning,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

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

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

Sales Activity

REVENUE BY TYPE



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

Consolidated	Three months ended March 31,	
	2023	2022
Canada Sales data: (including joint ventures at 100%)[1]		
Single-family sales (number of lots)	**82**	288
Gross average revenue per single-family lot ($)	**152,476**	144,246
Multi-family sales (acres)	**3.73**	7.58
Gross average revenue per multi-family acre ($)	**950,000**	594,459
Divisional results: (including joint ventures at Melcor's interest)[1]		
Revenue ($000s)	**8,218**	25,993
Earnings ($000s)	**1,914**	8,190

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

Strong demand in the housing market in 2021 carried over to Q1-2022 and was an outlier compared to historic trends in first quarter sales. Q1-2023 results were more aligned with expectation for the first quarter of the year. Although Community Development lot sales were down 72% contributing to the 68% decline in divisional revenue, average revenue per lot and gross revenue on multi-family acres sold were up and management views the results as favourable.

We sold 82 single-family lots in Q1-2023 (Q1-2022: 288). The Edmonton region contributed the largest volume of single-family lot sales at 78 (Q1-2022: 229) There were no sales in the Calgary region compared to 51 in Q1-2022, but continue to identify positive market indicators in the region. We are introducing 2 new communities in the region later this year. They have received significant early interest.

In Q1-2023 we sold 3.73 acres of multi-family land in the community of Glenridding for $1.24 million at joint venture interest. Land sales, including commercial, multi-family and industrial sites, vary by quarter and can lead to lumpy revenue.

The US Community Development model differs from Canadian markets, with the majority of revenue occurring in a single quarter. Builders buy lots in bulk to build homes to sell to homeowners. Due to this, no lots in our Harmony (Denver, CO) community were sold in the current or comparative quarter, but we do expect sales to close in the US later in 2023.

Our construction program has been active in Q1-2023 with 5 new phases registered in 3 communities year-to-date (Q1-2022: 4 phases in 4 communities).

The gross margin for the Community Development division is strongly impacted by the mix of both product type and location of inventory sold. Gross margin was consistent in Q1-2023 at 39% (Q1-2022: 38%).

The average sale price on single-family lots increased 6% from Q1-2022 primarily due to estate lot sales in the Kelowna region in the current period which also contributed to the slight increase in margin. Single-family lot sales cover a wide mix of product categories at various price points in 2023 thus far, from starter town homes and duplexes to lakefront estate lots.

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

Regional Sales Analysis

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

	Three months ended March 31, 2023			Three months ended March 31, 2022		
(including joint ventures at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Other (Acres)**	Single- family (Lots)	Multi-family (Acres)	Other (Acres)
Edmonton Region	**78**	**3.73**	**–**	229	2.28	–
Red Deer	**2**	**–**	**–**	8	–	–
Calgary Region	**–**	**–**	**–**	51	–	–
Lethbridge	**–**	**–**	**–**	–	5.30	–
Kelowna	**2**	**–**	**–**	–	–	–
United States	**–**	**–**	**–**	–	–	–
	82	**3.73**	**–**	288	7.58	–

Single-family lot sales may vary significantly quarter over quarter as plan registrations typically occur in the latter half of the year. In Q1-2022, sales carried over from the record breaking lot sales achieved in 2021. Demand slowed somewhat through the middle of 2022 as rising interest rates and general inflation caused potential homebuyers to pause while markets regained stability. Through early 2023 we are seeing a return to strength in both interest and activity.

Inventory

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

	Three months ended March 31, 2023			Three months ended March 31, 2022		
(including joint ventures at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Other (Acres)**	Single- family (Lots)	Multi-family (Acres)	Other (Acres)
Open	**949**	**58.19**	**116.33**	685	61.71	–
Purchases	**–**	**–**	**–**	–	–	–
New developments	**141**	**3.73**	**–**	–	–	–
Redevelopment	**–**	**–**	**–**	36	(3.34)	–
Sales	**(82)**	**(3.73)**	**–**	(288)	(7.58)	–
	1,008	**58.19**	**116.33**	433	50.79	–

We strategically monitor inventory levels and bring on appropriately sized new phases where market demand dictates.

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.

In Q1-2023 we purchased one 40.00 acre parcel of land in Leduc, AB for $2.40 million. The parcel of land is adjacent to existing raw land holdings for future residential development. In the comparative period of Q1-2022 no land was purchased.

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

Property Development

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

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

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

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

Management fee revenue is comprised of fees paid by joint arrangement partners and is a percentage of total development costs incurred, which fluctuate period to period depending on the development stage of active projects. Fees are also collected in Property Development on large tenant work done for Investment Properties and REIT divisions.

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

Division Highlights

($000s and at JV%, except as noted)	**Three months ended**	
	31-Mar-2023	31-Mar-2022
Total revenue	**17**	18
Management fees revenue	**17**	18
Fair value gains on investment properties	**322**	328

In the quarter, no properties were completed and transferred. As the 2023 construction season has now begun, the Property Development team is actively constructing 5 new CRU's in 3 communities and has plans to expand development in several other projects.

Continued development and leasing in these projects resulted in fair value gains of $0.32 million during the quarter. Management examines each development site on a case by case basis. We continue to develop where we remain confident in our lessees prospects.

The Property Development division currently has 74,284 sf under active development.

Regional Highlights

($000s and at JV%, except as noted)	Three months ended	
Fair value adjustments by region	**31-Mar-2023**	31-Mar-2022
Northern Alberta	**–**	328
Southern Alberta	**322**	–
	322	328

Northern Alberta: We did not recognize any fair value gains in the quarter ($0.33 in Q1-2022). We are actively working on the construction of 27,262 sf at Woodbend Market (Leduc, AB).

Southern Alberta: We recognized $0.32 million in fair value gains related to our ongoing development at Greenwich (Calgary, AB), where we have two buildings (37,055 sf) and at Chestermere Station (Chestermere, AB) where we have 9,967 sf under construction.

Future development opportunities

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

The following tables illustrate our current and future project expectations:

Current Projects

Project	Location	Type	Total SF[1]	Developed and transferred to IP or Sold[2]	SF Under Development or developed and awaiting lease up
The Village at Blackmud Creek	South Edmonton	Regional business park	550,000	198,910	–
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	9,967
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	27,262
Greenwich	West Calgary	*Regional mixed use centre*	325,000	62,600	37,055
Vista Ridge	Sylvan Lake	*Neighbourhood shopping centre*	20,000	5,200	–

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

2 Developed and transferred to IP or sold includes estimated sf of sites sold to retailers for development as described above.

Expected Future Projects

Project	Location	Type	Total SF[1]	Ownership Interest	Expected Start (year)
Secord	Edmonton	*Neighbourhood shopping centre*	85,000	60 %	2024
Bower	Red Deer	*Neighbourhood shopping centre*	85,000	100 %	2025
Mattson	Edmonton	*Neighbourhood shopping centre*	78,000	50 %	2025
Keystone Common	North Calgary	*Regional power centre*	500,000	100 %	2025+
Rolly View	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.

Investment Properties

Our Investment Properties division manages and leases our portfolio of high-quality office, retail, industrial and residential properties, which are located across western Canada and the US, including properties owned by the REIT. Currently our Investment Properties division manages 4.73 million sf of income-producing commercial GLA and 473 residential units.

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

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

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

Operating results

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

(as at, at JV%, except as noted)	31-Mar-2023	31-Dec-2022
Commercial properties GLA under management (sf, total)	**4,734,168**	4,804,248
Properties owned and managed (sf)	**1,135,435**	1,135,418
Properties managed (sf)	**3,598,733**	3,668,830
Residential units managed	**473**	476
Occupancy - CAD	**90.1 %**	89.3 %
Occupancy - US	**81.3 %**	82.6 %
Weighted Average Base Rent (per sf) - CAD	**$27.23**	$27.02
Weighted Average Base Rent (per sf) - US	**$21.49**	$20.32

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

($000s and at JV%, except as noted)	Three months ended March 31,	
	2023	2022
Revenue (total)	**10,812**	10,604
Canadian properties	**5,743**	5,171
US properties	**3,465**	3,621
Management fees	**1,389**	1,685
Parking lots and other assets	**215**	127
Net operating income (NOI)[1]	**6,702**	6,249
Funds from operations[1]	**6,200**	5,695
Funds from operations per share[2]	**0.20**	0.17

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

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

Canadian properties

Our Canadian property portfolio continues to grow as properties are developed and transferred from Property Developments. The Property Development division has 74,284 sf of GLA under active construction or completed and awaiting lease up. The majority of transfers to Investment Properties typically occur in the latter part of the year due to construction timing and weather in our primary operating regions.

Compared to year end, Canadian properties occupancy was up to 90% (2022: 89%) while WABR was up 1% at $27.23 (2022: $27.02). Occupancy and WABR are impacted by transfers from the Property Development as new leases have both fixturing and rent free periods.

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

($000s and at JV%, except as noted)	**Three months ended March 31,**	
	2023	2022
Same asset NOI[1]	**2,881**	2,761
Properties transferred from PD	**1,021**	486
NOI[1]	**3,902**	3,247
Amortization of tenant incentives	**(537)**	(151)
Straight-line rent adjustment	**246**	352
Gross profit	**3,611**	3,448

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

Gross profit was up 5% or $0.16 million in the quarter. NOI increased by 20% or $0.66 million in the quarter. On a same asset basis, NOI was up 4% in the quarter due to improved occupancy.

US properties

Dispositions: In Q1-2023 we sold three residential units in the Edge at Grayhawk in Phoenix, AZ for a net sale price of $1.23 million (US$0.97 million). Throughout 2022, we sold a total of 117 residential units in Phoenix, AZ for a net sale price of $35.00 million (US$26.15 million). These dispositions are adjusted for in the same asset NOI calculations that follows.

Our US residential units were strategically purchased over 10 years ago when exchange rates and market conditions were favorable. Following the US housing market crash in 2008, we issued a $40 million convertible debenture and invested heavily in the US. In addition to the raw land purchased in Denver, we acquired residential rental units in Arizona and Texas. In total, we bought 969 units for $86 million Canadian and have since sold 884 of those units for $167 million Canadian, doubling our investment. Sales took place in 2015-2016 and 2021-2022.

These sales are not included in revenue; however, the value of the assets increased over time through both exchange rate changes and market improvements and we achieved significant gains compared to our initial investment. These gains are considered fair value adjustments and were recorded over the time the assets were held.

Revenue on US properties was $3.47 million in Q1-2023 (Q1-2022: $3.62 million). Revenue and NOI were impacted by dispositions in the trailing 12 months, which is adjusted for in the same asset NOI calculations in the following table.

Compared to year end, occupancy decreased slightly to 81% (2022: 83%) and WABR increased by 6% to $21.49 (2022: $20.32).

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

($000s and at JV%, except as noted)	**Three months ended March 31,**	
	2023	2022
Same asset NOI[1]	**1,100**	1,037
Third party disposals	**(13)**	220
NOI[1]	**1,087**	1,257
Foreign currency translation	**383**	335
Amortization of tenant incentives	**(224)**	(214)
Straight-line rent adjustment	**12**	103
Gross profit	**1,258**	1,481

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

Gross profit was down $0.22 million in Q1-2023 due to the sale of rental units over the trailing 12 months. Same asset NOI increased 4% or $0.12 million over Q1-2022.

Management fees & other

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

Q1-2023 management fees were down as a result of dispositions and the lease fee agreement between Melcor and the REIT amendment in 2022 which decreased fees paid. Management fees include payments received from the REIT for management of REIT assets. These amounts are eliminated on consolidation.

Funds from Operations

FFO increased 9% or $0.51 million in the quarter. The increase in FFO is attributed to the increase in revenues in the period, and a reduction in general and administrative expenses.

REIT

The REIT owns 38 income-producing office, retail and industrial properties, comprising 3.15 million sf of GLA at March 31, 2023. The REIT's portfolio has a diversified tenant profile - with a mix of national, regional and local tenants - operating in a variety of industries.

As at May 10, 2023 we have a controlling 55.4% interest in the REIT through ownership of all Class B LP Units (December 31, 2022 - 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 11 to the Condensed Interim 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 division's GLA, occupancy and average base rent:

(as at, at JV%, except as noted)	**31-Mar-2023**	31-Dec-2022
Commercial properties GLA under management (sf, total)	**3,146,006**	3,216,141
Fair value of portfolio[1]	**699,886**	700,182
Occupancy	**88.4 %**	88.1 %
Weighted average base rent (per sq. ft.)	**16.64**	16.55

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

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

($000s except as noted)	**Three months ended March 31,**	
	2023	2022
Rental revenue	**18,990**	18,965
NOI[1]	**11,522**	11,855
Same asset NOI[1] *(see calculation following)*	**11,492**	11,687
Fair value adjustment on investment properties	**(1,586)**	(3,662)
Funds from operations[1]	**10,936**	11,076
Funds from operations per share[2]	**0.35**	0.34

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

Rental revenue remained stable compared to Q1-2022; however, both NOI and net rental income were down 3%. Same-asset NOI, which removes property sold in the period (Kelowna Business Centre), was down 2% compared to Q1-2022 as costs increased more than revenue on remaining assets held. Recoveries are amounts recovered from tenants for direct operating expenses and include a nominal administrative charge. We typically expect recovery revenue to correlate with changes in recoverable operating expenses. In the quarter, recovery revenue was up 3% and direct operating expenses were up 4%. Our recovery ratio can vary quarter over quarter due to variability of expenditures within our portfolio, and the timing of expenses incurred. Prior year recovery adjustments can also impact our recovery ratio and are generally recognized in the first quarter.

Other revenue includes parking, storage, lease amendment and termination fees as well as other miscellaneous revenue that is ancillary to our business and fluctuates from period to period.

Amortization of tenant incentives can fluctuate based on the timing of lease rollovers and leasing incentives. 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.

To date, we have signed 221,777 sf of new and renewed leasing (including holdovers).

As at March 31, 2023, we have retained 95% (196,449 sf) of expiring leases and have received commitment on an additional 47,116 sf of future renewals representing a committed occupancy of 90%. We completed 25,328 sf in new leases, and grew existing tenants by 7,661 sf in occupied space. Kelowna Business Centre, a 71,629 sf office asset was removed from both total GLA and closing occupancy.

Property taxes and utilities were up 1% in the quarter. Utility costs, including heating and power costs, have seen significant increases over the last 12 months due to inflation. Weather conditions in the regions where our assets are located can also impact both heating and air conditioning costs. Property tax increases were the result of increased mill rates over the prior year.

Operating expenses were up in the quarter consistent with the timing of maintenance projects and increased costs being felt across the industry.

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

($000s except as noted)	Three months ended March 31,	
	2023	2022
Same asset NOI[1]	**11,492**	11,687
Disposals	**30**	168
NOI before adjustments	**11,522**	11,855
Amortization of tenant incentives	**(1,058)**	(901)
Straight-line rent adjustment	**174**	2
Net rental income	**10,638**	**10,956**

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

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

Same-asset NOI in the current and comparative periods exclude Kelowna Business Center, which was sold on February 1, 2023. There have been no other acquisitions or dispositions over the past three years. In the quarter, NOI was down 3% and same-asset NOI was down 2% in the quarter.

Funds from operations

FFO is a non-GAAP financial measure used in the real estate industry to measure the operating performance of investment properties. Refer to the Non-GAAP and Non-Standard Measures section for further information. FFO was down 1% in the quarter due to lower NOI.

Recreational Properties

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

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

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

All courses opened subsequent to the first quarter of 2023.

	Ownership interest	Season opened 2023	Season opened 2022
Managed by Melcor:			
Lewis Estates (Edmonton)	60%	**April 19**	April 22
The Links (Spruce Grove)	100%	**April 20**	April 22
Black Mountain (Kelowna)	100%	**April 4**	March 30
Managed by a Third Party:			
Jagare Ridge (Edmonton)	50%	**April 25**	April 29

General & Administrative Expense

G&A expenses were down $0.35 million or 6% to $5.51 million. This decreases is a result of a reduction in activity within our Community Development division and a reduction in G&A within our Investment Properties division.

As a percentage of revenue, G&A was up slightly in the quarter at 15% (Q1-2022: 11%) as a direct result of the reduction in overall revenue. Management continues to prudently monitor and manage controllable expenses.

Income Tax Expense

The statutory tax rate is 23% for the three months ended March 31, 2023 (2021: 23%). Items that impacted the effective tax rate include permanent differences related to revaluation adjustments on investment properties, distributions to REIT unitholders and the non-taxable portion of REIT income.

Liquidity & Capital Resources

The following table represents selected information as at March 31, 2023, compared with December 31, 2022.

As at ($000s except as noted)	**31-Mar-2023**	31-Dec-2022
Cash & cash equivalents	**51,453**	80,465
Restricted cash	**1,759**	2,761
Accounts receivable	**10,211**	12,487
Agreements receivable	**86,033**	97,232
Revolving credit facilities	**106,239**	128,473
Accounts payable and accrued liabilities	**39,917**	53,213
Total assets	**2,112,238**	2,167,050
Total liabilities	**936,347**	988,714
Debt to equity ratio[1]	**0.80**	0.84

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

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

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

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

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

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.

Financing & Liquidity

Total liquidity (cash and MDL & REIT line availability) was $124.36 million as at March 31, 2023 (December 31, 2022: $167.10 million). Our total general debt outstanding was $705.04 million as at March 31, 2023 (December 31, 2022: $740.37 million).

A summary of our debt is as follows:

As at ($000s)	**31-Mar-2023**	31-Dec-2022
Melcor - revolving credit facilities	**81,931**	96,839
REIT - revolving credit facility	**24,308**	31,634
Project specific financing	**23,619**	22,597
Secured vendor take back debt on land inventory	**5,717**	5,717
Debt on investment properties and golf course assets	**524,870**	539,110
REIT - convertible debentures	**44,590**	44,468
General debt	**705,035**	740,365

We are subject to financial covenants on our revolving credit facility. The covenants include a maximum debt to total capital ratio of 125%, a minimum debt service coverage ratio of 3.00, and a minimum net book value of shareholder's equity of $300.00 million. As at March 31, 2023 and throughout the period, we were in compliance with our financial covenants.

We are also subject to financial covenants on the REIT's $50.00 million revolving credit facility. The covenants include a maximum debt to total capital ratio of 60% (excluding convertible debenture), a minimum debt service coverage ratio of 1.25, and a minimum adjusted unitholders' equity of $140 million. As at March 31, 2023 and throughout the period, we were in compliance with our financial covenants.

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

Sources & Uses of Cash

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

($000s)	Three months ended	
	31-Mar-2023	31-Mar-2022
Cash flow from (used in) operating activities	**(5,072)**	988
Cash flow from (used in) investing activities	**16,462**	(1,675)
Cash flow from (used in) financing activities	**(40,377)**	7,746

Operating Activities:

Cash used in operating activities was $5.07 million in Q1-2023 compared to cash from operations of $0.99 million in Q1-2022. Cash flow from operating activities is significantly impacted by the timing of development and sales activity and swings in working capital. Operating assets and liabilities tend to fluctuate year over year depending on the timing of payments due and receivable, which resulted in cash outflow of $11.05 million in Q1-2023 (Q1-2022: $4.52 million). Collections on agreements receivable were up $8.89 million compared to 2022 due to timing of sales and receipts which has a positive impact on cash flow.

Development activities resulted in $4.50 million in net cash outflows, compared to $4.10 million in net cash outflows in Q1-2022. Tenant incentives and direct leasing costs were up in the quarter at $5.00 million (Q1-2022: $1.72 million).

In the quarter, we invested $2.40 million in the purchase of 40.00 acres in Leduc, AB adjacent to existing inventory. Melcor remains focused on harvesting current land inventory and continues to strategically review land purchase opportunities. No land was purchased in Q1-2022.

Investing Activities:

Cash from investing activities was $16.46 million in Q1-2023 compared to cash used in investing activities in Q1-2022 $1.68 million. The largest factor of this $18.14 million swing relates to the sale of the Kelowna Business Centre, which brought in net proceeds of $19.03 million (including $1.00 million of restricted cash held at year end). These funds were used to repay the mortgage on the property, with remaining cash used to reduce borrowings on our REIT credit facility.

We continue to develop commercial properties and invest in our portfolio and spent $3.71 million (Q1-2022: $1.56 million) on additions to our investment properties, including $3.52 million on Property Development projects.

Financing Activities:

Cash used in financing activities was $40.38 million in Q1-2023 compared to cash from financing of $7.75 million in Q1-2022. During the quarter, we made repayments on our credit facility of $22.23 million (Q1-2022: cash draws of $5.21 million) and also made repayments on our general debt of $14.17 million, which includes the loan payout of Kelowna Business Center of $8.73 million.

We paid dividends of $0.16 per share in Q1-2023 for a total of $5.00 million compared to $0.14 per share in Q1-2022 for a total of $4.60 million.

Share Data

Melcor has been a public company since 1968 and trades under the symbol "MRD" on the Toronto Stock Exchange. As at March 31, 2023 there were 31,248,628 common shares issued and outstanding, 223,000 options, and 314,948 restricted share units. Each stock option and restricted share unit is convertible to one common share upon exercise or exchange. There is only one class of common shares issued.

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

There are no material changes to the above titled sections at March 31, 2023 in comparison to the December 31, 2022 annual MD&A. Refer to note 3 of the condensed interim consolidated financial statements for changes in accounting policies.

Normal Course Issuer Bid

We do not currently have an active Normal Course Issuer Bids (NCIB) for Melcor Developments or REIT.

Quarterly Results

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

	2023	2022				2021		
($000s)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	**36,077**	76,261	61,136	51,044	53,306	150,598	56,213	65,547
Net income	**2,153**	37,202	23,774	25,908	2,470	44,769	16,561	9,014
FFO[1]	**7,045**	22,297	16,012	11,853	10,697	42,311	12,516	16,326
Per Share								
Basic earnings	**0.07**	1.15	0.73	0.79	0.08	1.35	0.50	0.27
Diluted earnings	**0.07**	1.15	0.73	0.79	0.07	1.35	0.50	0.27
FFO basic[2]	**0.23**	0.70	0.49	0.36	0.33	1.28	0.38	0.49
FFO diluted[2]	**0.23**	0.71	0.49	0.36	0.32	1.28	0.38	0.49
Book value[2]	**37.63**	37.71	35.55	34.78	33.81	33.87	32.69	32.10

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

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

Subsequent Events

Refer to note 15 of the interim consolidated financial statements for information pertaining to subsequent events.

Internal Control over Financial Reporting & Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were material changes to internal control over financial reporting during the quarter ended March 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Non-GAAP and Non-standard Measures

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

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

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

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

Investment Properties

($000s)	Three months ended March 31,	
	2023	2022
Segment Earnings	**3,500**	5,112
Fair value adjustment on investment properties	**1,939**	218
General and administrative expenses	**782**	1,010
Interest income	**(22)**	(1)
Amortization of tenant incentives	**761**	365
Straight-line rent adjustment	**(258)**	(455)
Divisional NOI	**6,702**	6,249

REIT

($000s)	Three months ended March 31,	
	2023	2022
Segment Earnings	**8,292**	6,513
Fair value adjustment on investment properties	**1,586**	3,662
General and administrative expenses	**779**	788
Interest income	**(19)**	(7)
Amortization of tenant incentives	**1,058**	901
Straight-line rent adjustment	**(174)**	(2)
Divisional NOI	**11,522**	11,855

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

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

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

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

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

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

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

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

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

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

Consolidated

($000s)	Three months ended March 31,	
	2023	2022
Net income for the period	**2,153**	2,470
Amortization of tenant incentives	**2,320**	1,407
Fair value adjustment on investment properties	**2,484**	2,522
Depreciation on property and equipment	**145**	156
Stock based compensation expense	**230**	117
Non-cash finance costs	**2,778**	(1,472)
Deferred income taxes	**(732)**	(181)
Fair value adjustment on REIT units	**(2,333)**	5,678
FFO	**7,045**	10,697

Investment Properties

($000s)	Three months ended March 31,	
	2023	2022
Segment Earnings	**3,500**	5,112
Fair value adjustment on investment properties	**1,939**	218
Amortization of tenant incentives	**761**	365
Divisional FFO	**6,200**	5,695

REIT

($000s)	Three months ended March 31,	
	2023	2022
Segment Earnings	**8,292**	6,513
Fair value adjustment on investment properties	**1,586**	3,662
Amortization of tenant incentives	**1,058**	901
Divisional FFO	**10,936**	11,076

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