Management's Discussion & Analysis

August 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 quarter ended June 30, 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 August 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 2
Second Quarter Highlights 3
Funds from Operations 5
Divisional Results 6
- Community Development 7
- Property Development 9
- Investment Properties 11
- REIT 13
- Recreational Properties 15

General & Administrative Expense 15
Income Tax Expense 15
Liquidity & Capital Resources 16
- Financing 16
- Sources & Uses of Cash 17

Share Data 17
Off Balance Sheet Arrangements, Contractual Obligations, Business Environment & Risks, Critical Accounting Estimates, Changes in Accounting Policies 18
Normal Course Issuer Bid 18
Quarterly Results 18
Subsequent Events 18
Internal Control over Financial Reporting & Disclosure Controls 18
Non-GAAP and Non-standard Measures 19

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.

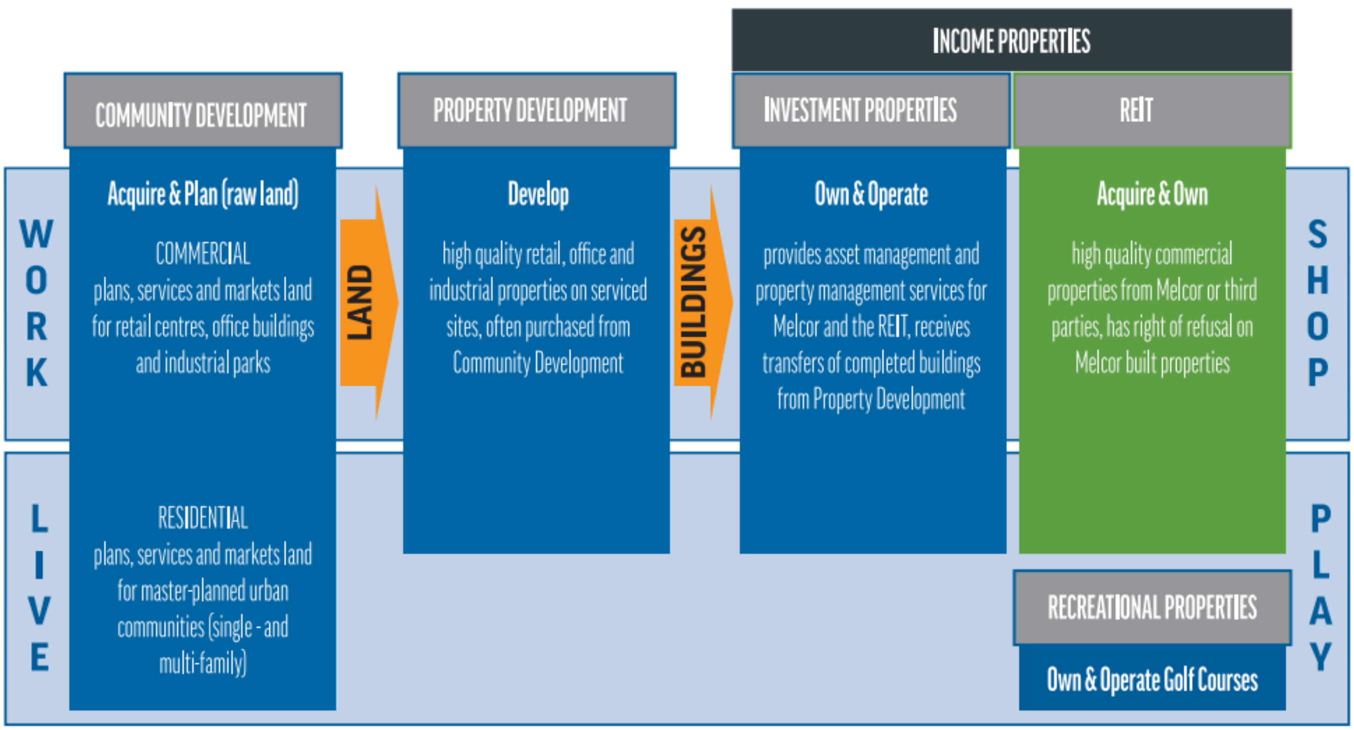
Since 1923, our focus has been the business of real estate. We've built over 170 communities and commercial projects across western Canada since the 1950s and have helped to shape much of Alberta's landscape. We manage 4.70 million square feet (sf) in commercial real estate assets and 469 residential 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

Second Quarter Highlights

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

($000s except as noted)	Three months ended June 30			Six months ended June 30		
	2023	2022	Change %	**2023**	2022	Change %
Revenue	**65,247**	51,044	28	**101,324**	104,350	(3)
Gross margin[1]	**51.9 %**	50.7 %	2	**51.4 %**	48.9 %	5
Net income	**21,633**	25,908	(17)	**23,786**	28,378	(16)
Net margin[1]	**33.2 %**	50.8 %	(35)	**23.5 %**	27.2 %	(14)
FFO[2]	**17,432**	11,853	47	**24,477**	22,550	9
Per Share Data ($)						
Basic earnings	**0.69**	0.79	(13)	**0.76**	0.87	(13)
Diluted earnings	**0.69**	0.79	(13)	**0.76**	0.86	(12)
FFO[3]	**0.56**	0.36	56	**0.78**	0.69	13
Dividends	**0.16**	0.14	14	**0.32**	0.28	14

As at ($000s except share and per share amounts)	**30-Jun-2023**	31-Dec-2022	Change %
Total assets	**2,106,765**	2,167,050	(3)
Shareholders' equity	**1,184,942**	1,178,336	1
Total shares outstanding	**30,923,007**	31,248,628	(1)
Per Share Data ($)			
Book value [(3)]	**38.32**	37.71	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 cyclical 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. Notwithstanding market conditions, demand for homes has remained stable across our geographically dispersed Community Development division contributing to both stable sales results and continued construction activity. To date in 2023, we have seen sales ramping up our Harmony project, located in Denver, CO and successfully closed on the sale of 84 single-family lots which generated revenue of $16.44 million at a gross margin of 49% in our Community Development division where there were no sales reported in 2022. The US community development model differs from Canadian markets, and sales can fluctuate quarter-over-quarter due the nature of the the US market with production builders buying lots in bulk and then build and sell the homes to consumers.

Our Property Development division continues to pre-lease space to kick start new commercial development, thus building our future income property asset base. The Property Development division currently has 104,284 sf under active development and awaiting lease-up.

We continue to monitor our asset holdings in all operating divisions. To date in our Investment Properties division, we have sold 7 units at the Edge at Grayhawk in Phoenix, AZ for net proceeds of $3.13 million (US$2.32 million). We also sold Stafford Common, a retail building located in Lethbridge, AB for gross proceeds of $3.50 million on June 30, 2023. The asset was purchased by Melcor in 2018.

In Q1-2023, we sold Kelowna Business Centre, owned by Melcor REIT, for $19.50 million. This was an opportunistic sale that enabled the REIT to pay down their line of credit while also achieving a good return on investment for unitholders. In Q2-2023, we listed five Saskatchewan properties for sale, all held in the REIT. Under International Financial Reporting Standards (IFRS), this required a balance sheet reclassification of the three retail properties as assets held for sale. These properties have a combined 198,000 sf and were listed for sale due to their geographic location as part of a strategic decision to focus on our Alberta markets within the REIT. The asset sales would generate net cash proceeds which would be used to pay down the REIT revolving credit facility.

Our Income Properties, which include Investment Properties and REIT divisions, contributed 58% of revenue in 2023 compared to 55% 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 92%. Overall revenue from our income producing properties was up 3% in Q2-2023 despite the sale of the Kelowna Business Centre which closed on February 1, 2023. 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 up 28% to $65.25 million in Q2-2023 (Q2-2022: $51.04 million), and down 3% year-to date to $101.32 million (2022: $104.35 million). Our Q2-2023 and year-to-date 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 up 47% to $17.43 million in Q2-2023 (Q2-2022: $11.85 million) and up 9% to $24.48 million year-to-date (2022: $22.55 million). The increase in FFO year-to-date was a direct result of a higher gross profit, up $1.06 million, and higher interest income, up $0.87 million year-to-date

Net income was $21.63 million in Q2-2023 compared to $25.91 million in Q2-2022, with year-to-date results yielding $23.79 million compared to $28.38 million in the first half of 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 Q2-2023 the fair value adjustment on REIT units swung by $4.93 million over Q2-2022 and $3.09 million year-to-date. 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 and the Calgary region contributing the largest sales volume. Year-to-date, we sold 195 single-family lots compared to 404 last year. Our Calgary region is actively working on the launch of two new communities, Goldwyn (located in Balzac, AB) and Sora (located in Calgary, AB). 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. In the period, we saw 84 single-family lot sales in the US (2022: no lots sold in the US).

The **Property Development** division currently has 104,284 sf under development or awaiting lease up in 3 projects (Chestermere Station, Woodbend Market and Greenwich). Construction and leasing activity resulted in fair value gains in the quarter of $1.04 million ($0.08 million in Q2-2022) and $1.36 million year-to-date (2022: $0.41 million).

Revenue from our **Income Properties** continued to produce stable results in both the quarter and year-to-date as a result of improved overall occupancy across our portfolio (including both Investment Properties and REIT divisions) to 87% (Q2-2022: 85%). GLA in 2023 was impacted by the disposition of Kelowna Business Center in Q1-2023 (71,629 sf) and Stafford Common in Q2-2023 (39,500 sf). Total GLA under management may also varies period over period as a result of both property transfers and remeasures of property that typically occur on lease transfers and/or renewals.

Our golf courses (**Recreational Properties**) saw a 6% increase in rounds played to date compared to 2022, as a direct result of our Edmonton courses opening earlier compared to 2022. Overall, we saw an incresae in year-to-date revenue of 14% over 2022.

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 30, 2023 and June 30, 2023.
- On August 10, 2023 we declared a quarterly dividend of $0.16 per share, payable on September 29, 2023 to shareholders of record on September 15, 2023. The dividend is an eligible dividend for Canadian tax purposes.

Melcor REIT:

- The REIT paid monthly distributions of $0.04 per unit in the first half of 2022.
- On July 14, 2023 the REIT declared a distribution of $0.04 per unit payable on August 15, 2023 to unitholders on record on July 31, 2023.

REVENUE & MARGINS

Consolidated revenue was up 28% to $65.25 million in the quarter (Q2-2022: $51.04 million), and down 3% to $101.32 million year-to date (2022: $104.35 million). Year-to-date revenue decreases are the result of lower revenue in our Community Development division, which is down 11% compared to 2022.

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 was $36.61 million year-to-date, down from $38.13 million in 2022. Our Community Development division, saw an increase in its margins to 44% year-to-date (2022: 39%). Margins in our Community Development division can vary significantly depending on the product type being sold, as well as the region of our lot sales. 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 58% of year-to-date revenue after intersegment eliminations compared with 55% in 2022. Income Properties maintained a steady gross margin year-to-date of 58% (2022: 59%). Gross profit generated from this segment year-to-date was $58.69 million compared to $57.68 million. The decrease in revenue and margin from the sale of the Kelowna Business Centre was offset by an increase in Canadian occupancy, and WABR in both our Canadian and US market resulting in overall revenue and margin growth in the current year, compared to 2022 year-to-date.

Consolidated gross margin increased to 52% in Q2-2023 (Q2-2022: 51%) and 51% year-to-date (2022: 49%). This increase is due to a shift in proportionate gross profit contributed from the income-generating divisions compared to prior year and an increase in margin within our Community Development division. 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 June 30			Six months ended June 30		
	2023	2022	Change %	**2023**	2022	Change %
Net income for the period	**21,633**	25,908	(17)	**23,786**	28,378	(16)
Amortization of tenant incentives	**1,949**	1,475	32	**4,269**	2,882	48
Fair value adjustment on investment properties	**4,780**	795	501	**7,264**	3,317	119
Depreciation on property and equipment	**426**	452	(6)	**571**	608	(6)
Stock based compensation expense	**248**	216	15	**478**	333	44
Non-cash finance costs	**(2,363)**	(3,820)	(38)	**415**	(5,292)	(108)
Gain on sale of asset	**(7)**	(8)	(13)	**(7)**	(8)	(13)
Deferred income taxes	**(678)**	318	(313)	**(1,410)**	137	(1129)
Fair value adjustment on REIT units	**(8,556)**	(13,483)	(37)	**(10,889)**	(7,805)	40
FFO[1]	**17,432**	11,853	47	**24,477**	22,550	9
FFO per share[2]	**$0.56**	$0.36	56	**$0.78**	$0.69	13

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 up 47% or $5.58 million in the quarter over Q2-2022 and 9% or $1.93 million year-to-date. The increase in FFO year-to-date was a direct result of a higher gross profit, up $1.06 million, and higher interest income, up $0.87 million year-to-date. This increase was partially offset by higher cash finance costs, which have felt upward pressure with rising interest rates compared to 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 four integrated segments (five divisions) and complementary operating divisions:

- Community Development: acquiring raw land and planning residential communities and commercial developments
- Property Development: project managing development, leasing and construction of commercial properties (Property Development)
- 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)
- Recreational Properties: owning and operating championship golf courses associated with our residential communities.

The following table summarizes the results of our operating divisions:

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Three months June 30,		Three months June 30,		Three months June 30,		Three months June 30,		Three months June 30,	
($000s except as noted)	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Revenue	**32,993**	20,258	**49**	3,796	**10,760**	9,959	**18,123**	18,154	**5,339**	4,649
Portion of total revenue %	**49 %**	36 %	**– %**	7 %	**16 %**	18 %	**27 %**	32 %	**8 %**	8 %
Cost of sales	**(17,965)**	(12,175)	**–**	(3,700)	**(4,313)**	(4,085)	**(7,510)**	(7,530)	**(2,178)**	(1,933)
Gross profit	**15,028**	8,083	**49**	96	**6,447**	5,874	**10,613**	10,624	**3,161**	2,716
Gross margin %[1]	**46 %**	40 %	**100 %**	3 %	**60 %**	59 %	**59 %**	59 %	**59 %**	58 %
Portion of total margin[1]	**43 %**	30 %	**– %**	– %	**18 %**	21 %	**30 %**	39 %	**9 %**	10 %
General and administrative expense	**(1,795)**	(1,822)	**(511)**	(463)	**(801)**	(686)	**(736)**	(810)	**(936)**	(860)
Fair value adjustment on investment properties	**—**	—	**1,039**	82	**1,431**	3,932	**(7,830)**	(5,540)	**–**	–
Gain on sale of assets	**—**	—	**—**	–	**–**	–	**–**	–	**7**	8
Interest income	**494**	220	**8**	–	**21**	5	**11**	8	**5**	1
Segment earnings (loss)	**13,727**	6,481	**585**	(285)	**7,098**	9,125	**2,058**	4,282	**2,237**	1,865

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Six months June 30,		Six months June 30,		Six months June 30,		Six months June 30,		Six months June 30,	
($000s except as noted)	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Revenue	**41,211**	46,251	**66**	3,814	**21,572**	20,563	**37,113**	37,119	**5,409**	4,762
Portion of total revenue %	**39 %**	41 %	**– %**	3 %	**20 %**	18 %	**35 %**	33 %	**5 %**	4 %
Cost of sales	**(22,972)**	(28,248)	**–**	(3,700)	**(8,926)**	(8,350)	**(15,862)**	(15,539)	**(2,676)**	(2,377)
Gross profit	**18,239**	18,003	**66**	114	**12,646**	12,213	**21,251**	21,580	**2,733**	2,385
Gross margin %[1]	**44 %**	39 %	**100 %**	3 %	**59 %**	59 %	**57 %**	58 %	**51 %**	50 %
Portion of total margin[1]	**33 %**	33 %	**– %**	– %	**23 %**	22 %	**39 %**	40 %	**5 %**	4 %
General and administrative expense	**(3,637)**	(3,644)	**(1,030)**	(1,199)	**(1,583)**	(1,696)	**(1,515)**	(1,598)	**(1,329)**	(1,225)
Fair value adjustment on investment properties	**—**	—	**1,361**	410	**(508)**	3,714	**(9,416)**	(9,202)	**–**	–
Gain on sale of assets	**—**	—	**—**	–	**–**	–	**–**	–	**7**	8
Interest income	**1,039**	312	**9**	–	**43**	6	**30**	15	**5**	1
Segment earnings (loss)	**15,641**	14,671	**406**	(675)	**10,598**	14,237	**10,350**	10,795	**1,416**	1,169

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.

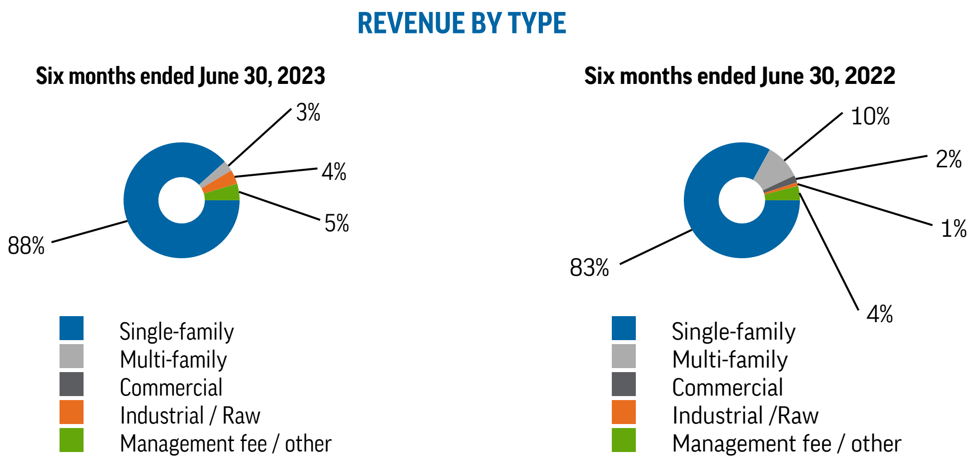
Community Development

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



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

Consolidated	Three months ended June 30,		Six months ended June 30,	
	2023	2022	**2023**	2022
Canada Sales data: (including joint ventures at 100%)[1]				
Single-family sales (number of lots)	**113**	116	**195**	404
Gross average revenue per single-family lot ($)	**190,414**	195,784	**174,460**	159,044
Multi-family sales (acres)	**–**	5.49	**3.73**	13.04
Gross average revenue per multi-family acre ($)	**–**	1,089,399	**950,000**	802,357
Commercial sales (acres)	**–**	1.91	**–**	1.91
Gross average revenue per commercial land acre ($)	**–**	512,304	**–**	512,304
Industrial sales (acres)	**1.45**	0.95	**1.45**	0.95
Gross average revenue per industrial land acre ($)	**460,000**	452,631	**460,000**	452,631
Land sales to government bodies - raw, other (acres)	**4.52**	0.50	**4.52**	0.50
Gross average revenue per other land acre ($)	**168,850**	40,000	**168,850**	40,000
US Sales data:				
Single family sales (number of lots)	**84**	–	**84**	–
Gross average revenue per single-family lot ($)	**188,884**	–	**188,884**	–
Divisional results: (including joint ventures at Melcor's interest)[1]				
Revenue ($000s)	**32,993**	20,258	**41,211**	46,251
Earnings ($000s)	**13,727**	6,481	**15,641**	14,671

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.

Revenue generated in our Community Development division was down 11% to $41.21 million year-to-date compared to 2022. In 2022, a large portion of our single-family lot sales was in joint ventures where Melcor's interest ranges from 30% to 67%, depending on the joint venture. The above sales data, including number of lots shown, is at 100% whereas our division results, including revenue and earnings, is shown at Melcor's interest. This can lead to disproportionate changes in the number of lots sold in comparison to changes in revenue and earnings reporting for the division.

Divisional earnings was up 7% to $15.64 million year-to-date compared to 2022. To-date in 2023, we have had higher gross average revenue per single-family lot in our Canadian markets. We also closed on the sale of 84 lots in our US region which generated revenue of $16.44 million at a gross margin of 49%. 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 saw a slight increase in Q2-2023 to 46% and 44% year-to-date over 2022 (Q2-2022: 40%; 2022: 39%).

In the quarter, we sold 113 single-family lots (Q2-2022: 116) and 195 single-family lots year-to-date (2022: 404) in our Canadian markets. The Edmonton region contributed the largest volume of single-family lot sales in both Q2-2023 at 56 and 134 year-to-date (Q2-2022: 59 ; 2022: 288). The Calgary region has seen strong sales in the period with 100% of their year-to-date sales occurring in Q2-2023 with 51 single-family lots sold year-to-date (Q2-2022: 12; 2022: 63).

In Q2-2023 we saw sales ramping up the US community development market and we closed on 84 single-family lots year-to-date (no sales in prior year). The US community development model differs from Canadian markets, and sales can fluctuate quarter-over-quarter due the nature of the the US market with production builders buying lots in bulk and then build and sell the homes to consumers.

In 2023 we sold 3.73 acres of multi-family land in the community of Glenridding for $1.24 million at joint venture interest and 1.45 acres of industrial land for $0.67 million. Land sales, including commercial, multi-family and industrial sites, vary by quarter and can lead to lumpy revenue.

Our construction program has been active in the year with 7 new phases registered in 4 communities year-to-date (2022: 7 phases in 6 communities).

The average sale price on single-family lots increased 10% from Q2-2022 primarily due to estate lot sales in Jensen Lakes (St.Albert, AB), Jagare Ridge (Edmonton, AB) and Black Mountain Estates (Kelowna, BC). 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 June 30, 2023			Three months ended June 30, 2022		
(including joint ventures at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Other (Acres)**	Single- family (Lots)	Multi-family (Acres)	Other (Acres)
Edmonton Region	**56**	**–**	**1.45**	59	5.49	0.95
Red Deer	**5**	**–**	**–**	18	–	1.91
Calgary Region	**51**	**–**	**–**	12	–	–
Lethbridge	**–**	**–**	**–**	12	–	–
Kelowna	**1**	**–**	**–**	15	–	–
Saskatchewan	**–**	**–**	**–**	–	–	0.50
United States	**84**	**–**	**–**	–	–	–
	197	**–**	**1.45**	116	5.49	3.36

	Six months ended June 30, 2023			Six months ended June 30, 2022		
(including joint ventures at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Other (Acres)**	Single- family (Lots)	Multi-family (Acres)	Other (Acres)
Edmonton Region	**134**	**3.73**	**1.45**	288	7.74	0.95
Red Deer	**7**	**–**	**–**	26	–	1.91
Calgary Region	**51**	**–**	**–**	63	–	–
Lethbridge	**–**	**–**	**–**	12	5.30	–
Kelowna	**3**	**–**	**–**	15	–	–
Saskatchewan	**–**	**–**	**–**	–	–	0.50
United States	**84**	**–**	**–**	–	–	–
	279	**3.73**	**1.45**	404	13.04	3.36

Single-family lot sales may vary significantly quarter over quarter as plan registrations typically occur in the latter half of the year.

Inventory

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

	Six months ended June 30, 2023			Six months ended June 30, 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	123.30
New developments	**169**	**3.73**	**10.22**	255	5.46	1.91
Redevelopment	**–**	**–**	**–**	–	(3.34)	–
Sales	**(279)**	**(3.73)**	**(1.45)**	(404)	(13.04)	(2.86)
	839	**58.19**	**125.10**	536	50.79	122.35

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 Q2-2023 we sold 4.52 acres of raw land to government bodies. The raw land was located in Leduc, AB and was sold for for $0.76 million or $0.17 million per acre.

In Q2-2023 we purchased 80 acres of land in Acheson, AB for $2.40 million, and in Q1-2023 we purchased 40 acres of land in Leduc, AB for $2.40 million. These purchases were strategic in nature for future development. In 2022, we purchased two parcels of land totaling 13 acres in Buckeye, AZ for $4.25 million (US 3.30 million).

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

Property Development

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

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

The Property Development division increases the value of land assets and delivers long-term sustainable returns with high profile anchor tenants such as ATB, Bank of Montreal, Canadian Tire, Canadian Western Bank, CIBC, Home Depot, Loblaws, McDonald's, Recipe Unlimited, Rona, Royal Bank, Save-on Foods, Scotiabank, Shoppers Drug Mart, Staples, Starbucks, Subway, TD Canada Trust, Tim Hortons, 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 June 30,		Six months ended June 30,	
	2023	2022	**2023**	2022
Fair value gains on investment properties	**1,039**	82	**1,361**	410
Management fees revenue	**49**	96	**66**	114
Revenue from property transfers	**–**	3,700	**–**	3,700
Total revenue	**49**	3,796	**66**	3,814
Margin (%) on property transfers	**–**	11 %	**–**	11 %
Square footage transferred (sf, at 100%)	**–**	7,049	**–**	7,049
Number of buildings transferred	**–**	1	**–**	1

In the quarter no properties were completed and transferred. In 2022 we saw 1 property transferred for 7,049 sf. 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 $1.04 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 104,284 sf under active development or awaiting lease-up.

Regional Highlights

($000s and at JV%, except as noted)	Three months ended June 30,		Six months ended June 30,	
Fair value adjustments by region	**2023**	2022	**2023**	2022
Northern Alberta	**718**	82	**718**	410
Southern Alberta	**321**	–	**643**	–
	1,039	82	**1,361**	410

Northern Alberta: In the quarter and year-to-date we have recognized $0.72 million in fair value gains (Q2-2022: $0.08 million; 2022: $0.41 million). We are actively working on the construction of two buildings totaling 57,262 sf at Woodbend Market (Leduc, AB).

Southern Alberta: In the quarter we recognized fair value gains of $0.32 million and $0.64 million year-to-date. Construction on our final commercial retail unit, 9,967 sf, at Chestermere Station (Chestermere, AB) is well underway with completion expected later in 2023. This building will complete the development of the 40-acre regional shopping centre that Melcor has been developing since 2010. Construction and leasing efforts have also progressed on two buildings (37,055 sf) in our Greenwich development located in Calgary, AB. We are expecting these buildings to also be completed and transferred to our Investment Properties division later in the year.

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	57,262
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 4.70 million sf of income-producing commercial GLA and 469 residential units.

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

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

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

Operating results

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

(as at, at JV%, except as noted)	**30-Jun-2023**	31-Dec-2022
Commercial properties GLA under management (sf, total)	**4,696,677**	4,804,248
Properties owned and managed (sf)	**1,095,935**	1,135,418
Properties managed (sf)	**3,600,742**	3,668,830
Residential units managed	**469**	476
Occupancy - CAD	**93.3 %**	89.3 %
Occupancy - US	**78.9 %**	82.6 %
Weighted Average Base Rent (per sf) - CAD	**$27.38**	$27.02
Weighted Average Base Rent (per sf) - US	**$21.68**	$20.32

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

($000s and at JV%, except as noted)	Three months ended June 30,		Six months ended June 30,	
	2023	2022	**2023**	2022
Revenue (total)	**10,760**	9,959	**21,572**	20,563
Canadian properties	**5,821**	4,895	**11,564**	10,065
US properties	**3,392**	3,831	**6,857**	7,452
Management fees	**1,286**	1,038	**2,675**	2,723
Parking lots and other assets	**261**	195	**476**	323
Net operating income (NOI)[1]	**6,613**	6,071	**13,315**	12,320
Funds from operations[1]	**6,133**	5,586	**12,333**	11,281
Funds from operations per share[2]	**$0.20**	$0.17	**$0.40**	$0.35

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

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

Canadian properties

Our Canadian property portfolio continues to grow as properties are developed and transferred from Property Developments. The Property Development division has 104,284 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.

On June 30, 2023 we successfully closed the sale of a 39,500 sf retail property located in Lethbridge, AB for a sale price of $3.50 million ($3.27 million net proceeds), reducing our total GLA in the period. The property was originally purchased in 2018.

Compared to year end, Canadian properties occupancy was up to 93% (2022: 89%) and WABR was up 1% at $27.38 (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 June 30,		Six months ended June 30,	
	2023	2022	**2023**	2022
Same-asset NOI[1]	**2,950**	2,879	**5,811**	5,603
Third party disposals	**61**	10	**67**	16
Properties transferred from PD	**995**	523	**2,030**	1,041
NOI[1]	**4,006**	3,412	**7,908**	6,660
Amortization of tenant incentives	**(245)**	(183)	**(782)**	(334)
Straight-line rent adjustment	**280**	132	**526**	484
Gross profit	**4,041**	3,362	**7,652**	6,810

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

Gross profit was up 20% or $0.68 million in the quarter and 12% or $0.84 million year-to-date. NOI increased by 17% or $0.59 million in the quarter and 19% or $1.25 million year-to-date. On a same-asset basis, NOI was up 2% in the quarter and 4% year-to-date due to improved occupancy.

US properties

Dispositions: In Q2-2023 we sold 4 residential units at the Edge at Grayhawk in Phoenix, AZ for net proceeds of $1.90 million (US$1.40 million). Year-to-date we have sold 7 residential units for net proceeds of $3.13 million (US$2.32 million). Throughout 2022, we sold a total of 117 residential units in Phoenix, AZ for net proceeds 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, and we have had additional sales in 2023.

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 $3.39 million in Q2-2023 and $6.86 million year-to-date (Q2-2022: $3.83 million; 2022: $7.45 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 79% (2022: 83%) and WABR increased by 7% to $21.68 (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 June 30,		Six months ended June 30,	
	2023	2022	**2023**	2022
Same-asset NOI[1]	**1,008**	1,185	**2,108**	2,222
Third party disposals	**—**	180	**(13)**	400
NOI[1]	**1,008**	1,365	**2,095**	2,622
Foreign currency translation	**346**	378	**729**	713
Amortization of tenant incentives	**(221)**	(210)	**(445)**	(424)
Straight-line rent adjustment	**20**	64	**32**	167
Gross profit	**1,153**	1,597	**2,411**	3,078

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

Gross profit was down $0.44 million in Q2-2023 and $0.67 million year-to-date due to the sale of rental units over the trailing 12 months. Same-asset NOI decreased 5% in the quarter and 15% year-to date or $0.18 million and $0.11 million respectively. The reduction in the same-asset NOI is attributed to the reduction in occupancy.

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.

In 2023, management fees were down year-to-date as a result of dispositions in the trailing 12 month period, as well as a reduction in the lease fees paid from the REIT to Melcor due to an amendment made in mid-2022. Amounts paid from the REIT to Melcor are eliminated on consolidation.

Funds from Operations

FFO increased 10% or $0.55 million in the quarter and 9% or $1.05 million year-to-date. The quarterly and year-to-date increase in FFO is attributed a increase in gross profits and interest income.

REIT

The REIT owns 38 income-producing office, retail and industrial properties, comprising 3.15 million sf of GLA at June 30, 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 August 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 12 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)	**30-Jun-2023**	31-Dec-2022
Commercial properties GLA under management (sf, total)	**3,148,015**	3,216,141
Fair value of portfolio[1]	**692,466**	700,182
Occupancy	**87.2 %**	88.1 %
Weighted average base rent (per sq. ft.)	**16.80**	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 June 30,		Six months ended June 30,	
	2023	2022	**2023**	2022
Rental revenue	**18,123**	18,154	**37,113**	37,119
NOI[1]	**11,689**	11,391	**23,211**	23,246
Same-asset NOI[1] *(see calculation following)*	**11,019**	10,564	**21,920**	21,648
Fair value adjustment on investment properties	**(7,830)**	(5,540)	**(9,416)**	(9,202)
Funds from operations[1]	**10,881**	10,728	**21,817**	21,804
Funds from operations per share[2]	**$0.35**	$0.33	**$0.70**	$0.66

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 in Q2-2022, and year-to-date. Base rents remained stable in the current quarter and year-to-date, despite the sale of Kelowna Business Center in Q1-2023. This is due to increases seen in WABR since the comparative period, and stable occupancy.

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 5% over Q2-2022 and 4% year-to-date and direct operating expenses were consistent over Q2-2022 and up 2% year-to-date. 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 466,899 sf of new and renewed leasing (including holdovers). In 2023, 615,485 sf of our portfolio was up for renewal, including month-to-month tenants.

As at June 30, 2023, we have retained 92% (418,132 sf) of expiring leases and have received commitment on an additional 40,158 sf of future renewals representing a committed occupancy of 89%. We completed 48,767 sf in new leases, and were able to retain current tenants though amendments of their leases. These lease amendments decreased overall occupancy by 12,088 sf. Kelowna Business Centre, a 71,629 sf office asset was removed from both total GLA and closing occupancy upon sale in Q1-2023.

Property taxes and utilities were up 4% in the quarter, and up 3% year-to-date. Utility costs, including heating and power costs, have seen significant increases over the last 12 months. Weather conditions in the regions where our assets are located can also impact both heating and air conditioning usage, which can lead to large swings in the volume of natural gas and electricity used. Property tax increases were the result of increased mill rates over the prior year.

Q2-2023 operating expenses were down 5% in the quarter and up slightly by 1% year-to-date. This variance in the periods can vary quarter over quarter due to the timing of maintenance projects and overall inflationary pressures which are impacting all industries.

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

($000s except as noted)	Three months ended June 30,		Six months ended June 30,	
	2023	2022	**2023**	2022
Same-asset NOI[1]	**11,019**	10,564	**21,920**	21,648
Disposals	**670**	827	**1,291**	1,598
NOI before adjustments	**11,689**	11,391	**23,211**	23,246
Amortization of tenant incentives	**(993)**	(906)	**(2,051)**	(1,807)
Straight-line rent adjustment	**(83)**	139	**91**	141
Net rental income	**10,613**	**10,624**	**21,251**	**21,580**

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

Same-asset NOI in the current and comparative periods exclude Kelowna Business Center, located in Kelowna, BC which sold on February 1, 2023) and the three retail properties, located in Regina, SK, classified as held for sale as at June 30, 2023. Year-to-date NOI was consistent, with a 3% increase in the quarter, and same-asset NOI was up 1% year-to-date and 4% in the quarter.

Net rental income in the quarter was consistent with Q2-2022, and year-to-date was down 2%. NOI in the period was up 3% over Q2-2022, and was consistent year-to-date. On a same-asset basis, NOI was up 4% in the quarter and 1% year-to-date. We typically expect period and year-to-date NOI to have a direct relationship, but due to the timing of direct expenditures in the period this relationship may vary quarter-over-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 up 1% in the quarter due to higher 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.

		2023		2022	
		Season opened	**Rounds of Golf**	Season opened	Rounds of Golf
Managed by Melcor:					
Lewis Estates (Edmonton)	60%	**April 19**	**13,429**	April 22	11,865
The Links (Spruce Grove)	100%	**April 20**	**12,978**	April 22	11,398
Black Mountain (Kelowna)	100%	**April 4**	**15,629**	March 30	16,554
Managed by a Third Party:					
Jagare Ridge (Edmonton)	50%	**April 25**	**10,286**	April 29	8,549

General & Administrative Expense

G&A expenses were down 1% to $11.21 million year-to-date. Our 2022 year-to-date G&A included higher than usual 3rd party property appraisal, legal and accounting fees where were non-recurring expenses. Excluding these prior year costs, G&A remained stable in the current year compared to 2022.

Management continues to prudently monitor and manage controllable expenses.

Income Tax Expense

The statutory tax rate is 23% for the three and six months ended June 30, 2023 (2022: 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 June 30, 2023, compared with December 31, 2022.

As at ($000s except as noted)	**30-Jun-2023**	31-Dec-2022
Cash & cash equivalents	**46,113**	80,465
Restricted cash	**1,721**	2,761
Accounts receivable	**8,211**	12,487
Agreements receivable	**82,161**	97,232
Revolving credit facilities	**130,241**	128,473
Accounts payable and accrued liabilities	**40,182**	53,213
Total assets	**2,106,765**	2,167,050
Total liabilities	**921,823**	988,714
Debt to equity ratio[1]	**0.78**	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 $113.41 million as at June 30, 2023 (December 31, 2022: $167.10 million). Our total general debt outstanding was $699.38 million as at June 30, 2023 (December 31, 2022: $740.37 million).

A summary of our debt is as follows:

As at ($000s)	**30-Jun-2023**	31-Dec-2022
Melcor - revolving credit facilities	**98,474**	96,839
REIT - revolving credit facility	**31,767**	31,634
Project specific financing	**10,539**	22,597
Secured vendor take back debt on land inventory	**2,717**	5,717
Debt on investment properties and golf course assets	**511,079**	539,110
REIT - convertible debentures	**44,799**	44,468
General debt	**699,375**	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 June 30, 2023 and throughout the period, we were in compliance with our financial covenants.

We are also subject to financial covenants on the REIT's 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 June 30, 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		Six months ended	
	30-Jun-2023	30-Jun-2022	30-Jun-2023	30-Jun-2022
Cash flow from (used in) operating activities	**10,934**	(2,145)	**5,862**	(1,157)
Cash flow from (used in) investing activities	**(2,636)**	(581)	**13,826**	(2,256)
Cash flow from (used in) financing activities	**(13,533)**	7,375	**(53,910)**	15,121

Operating Activities:

Cash from operating activities was up $13.08 million to $10.93 million in Q2-2023 (Q2-2022: $2.15 million cash outflows) and up $7.02 million to $5.86 million year-to date (2022: $1.16 million cash outflows). 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 period over period depending on the timing of payments due and receivable. In the current quarter, operating assets and liabilities had a positive impact on cash of $2.44 million (Q2-2022: $13.70 million cash outflow) and year-to-date had a negative impact of $8.61 million (2022: $18.22 million cash outflow). Collections on agreements receivable were down $3.91 million in the quarter but up $4.98 million year-to-date due to timing of sales and receipts. Year-to-date collections of agreements receivable has contributed $15.07 million to cash from operating activities compared to $10.09 million in 2022.

Development activities in the quarter resulted in $9.65 million in net cash outflows, compared to $0.44 million in Q2-2022. Year-to-date development activities resulted in cash outflows of $14.14 million compared to $4.54 million in 2022. Tenant incentives and direct leasing costs were down in the quarter at $0.66 million (Q2-2022: $2.88 million) and up to $5.66 million year-to-date (2022: $4.60 million).

We purchase 80 acres of land in Acheson, AB for $2.40 million in the quarter. In Q1-2023 we purchased 40 acres of land in Leduc, AB for $2.40 million. Melcor remains focused on harvesting current land inventory and continues to strategically review land purchase opportunities. No land was purchased in Q2-2022.

Investing Activities:

Cash used in investing activities was $2.64 million in Q2-2023 (Q2-2022: $0.58 million). Year-to-date, we generated net cash inflows from investing activities of $13.83 million (2022: $2.26 million cash outflow) as a result of net proceeds received on the sale of investment properties.

We continue to develop commercial properties and invest in our portfolio and spent $7.64 million in the quarter (Q2-2022: $2.90 million) on additions to our investment properties. Included in this amount is spend related to our Property Development division which ramped up construction in the quarter contributing to the increased spend. In Q2-2023 our property development contributed $7.00 million (Q2-2022: $2.02 million) and $10.52 million year-to-date (2022: $3.28 million).

Cash spent on investing activities was offset by cash generated on the sale of investment properties. In Q2-2023 we sold one retail property in Lethbridge, AB and four residential units in the US, which generated net cash of $5.17 million. In Q1-2023 we also sold Kelowna Business Centre, which brought in net proceeds of $19.03 million (including $1.00 million of restricted cash held at year end) and an additional three residential units in the US.

Financing Activities:

Cash used in financing activities was $13.53 million in Q2-2023 compared with cash generated in Q2-2022 of $7.38 million. Year-to-date cash used in financing activities was $53.91 million compared with cash generated in 2022 of $15.12 million.

During the quarter, we made draws on our credit facility of $24.00 million (Q2-2022: cash draws of $22.51 million) with year-to-date draws of $1.77 million (2022: $27.72 million). We saw repayment on our general debt of $47.10 million in the quarter and $61.27 million year-to-date, which includes the loan payout of Kelowna Business Center, and Chauncey Property (US).

We paid dividends of $0.16 per share in Q2-2023 for a total of $4.95 million compared to $0.14 per share in Q2-2022 for a total of $4.57 million.

Share Data

Melcor has been a public company since 1968 and trades under the symbol “MRD” on the Toronto Stock Exchange. As at June 30, 2023 there were 30,923,007 common shares issued and outstanding, 223,000 options, and 305,426 restricted share units. Each stock option and restricted share unit is convertible to one common share upon exercise or exchange. There is only one class of common shares issued.

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

There are no material changes to the above titled sections at June 30, 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

On June 7, 2023 Melcor commenced a Normal Course Issuer (NCIB) which allows us to purchase up to 1,562,431 shares for cancellation, representing approximately 5% of the issued and outstanding shares up to a maximum daily limit of 1,617 shares unless acquired under a block purchase exception. The price that Melcor pays for shares repurchased under the plan is the market price at the time of acquisition. The NCIB expires on June 6, 2024.

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

As at June 30, 2023, 325,621 shares were purchased for cancellation by Melcor pursuant to the NCIB at a cost of $3.67 million (December 31, 2022 - 1,777,662 shares purchased at a cost of $21.43 million).

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	
($000s)	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Revenue	65,247	36,077	76,261	61,136	51,044	53,306	150,598	56,213
Net income	21,633	2,153	37,202	23,774	25,908	2,470	44,769	16,561
FFO[1]	17,432	7,045	22,297	16,012	11,853	10,697	42,311	12,516
Per Share ($)								
Basic earnings	0.69	0.07	1.15	0.73	0.79	0.08	1.35	0.50
Diluted earnings	0.69	0.07	1.15	0.73	0.79	0.07	1.35	0.50
FFO basic[2]	0.56	0.23	0.70	0.49	0.36	0.33	1.28	0.38
Book value[2]	38.32	37.63	37.71	35.55	34.78	33.81	33.87	32.69

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 16 of the interim consolidated financial statements for information pertaining to subsequent events.

Internal Control over Financial Reporting & Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were material changes to internal control over financial reporting during the quarter ended June 30, 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 June 30,		Six months ended June 30,	
	2023	2022	**2023**	2022
Segment Earnings	**7,098**	9,125	**10,598**	14,237
Fair value adjustment on investment properties	**(1,431)**	(3,932)	**508**	(3,714)
General and administrative expenses	**801**	686	**1,583**	1,696
Interest income	**(21)**	(5)	**(43)**	(6)
Amortization of tenant incentives	**466**	393	**1,227**	758
Straight-line rent adjustment	**(300)**	(196)	**(558)**	(651)
Divisional NOI	**6,613**	6,071	**13,315**	12,320

REIT

($000s)	Three months ended June 30,		Six months ended June 30,	
	2023	2022	**2023**	2022
Segment Earnings	**2,058**	4,282	**10,350**	10,795
Fair value adjustment on investment properties	**7,830**	5,540	**9,416**	9,202
General and administrative expenses	**736**	810	**1,515**	1,598
Interest income	**(11)**	(8)	**(30)**	(15)
Amortization of tenant incentives	**993**	906	**2,051**	1,807
Straight-line rent adjustment	**83**	(139)	**(91)**	(141)
Divisional NOI	**11,689**	11,391	**23,211**	23,246

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, assets held for sale, and other assets (TI's and SLR).

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

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

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

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

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

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

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

Consolidated

($000s)	Three months ended June 30,		Six months ended June 30,	
	2023	2022	**2023**	2022
Net income for the period	**21,633**	25,908	**23,786**	28,378
Amortization of tenant incentives	**1,949**	1,475	**4,269**	2,882
Fair value adjustment on investment properties	**4,780**	795	**7,264**	3,317
Depreciation on property and equipment	**426**	452	**571**	608
Stock based compensation expense	**248**	216	**478**	333
Non-cash finance costs	**(2,363)**	(3,820)	**415**	(5,292)
Gain on sale of asset	**(7)**	(8)	**(7)**	(8)
Deferred income taxes	**(678)**	318	**(1,410)**	137
Fair value adjustment on REIT units	**(8,556)**	(13,483)	**(10,889)**	(7,805)
FFO	**17,432**	11,853	**24,477**	22,550

Investment Properties

($000s)	Three months ended June 30,		Six months ended June 30,	
	2023	2022	**2023**	2022
Segment Earnings	**7,098**	9,125	**10,598**	14,237
Fair value adjustment on investment properties	**(1,431)**	(3,932)	**508**	(3,714)
Amortization of tenant incentives	**466**	393	**1,227**	758
Divisional FFO	**6,133**	5,586	**12,333**	11,281

REIT

($000s)	Three months ended June 30,		Six months ended June 30,	
	2023	2022	**2023**	2022
Segment Earnings	**2,058**	4,282	**10,350**	10,795
Fair value adjustment on investment properties	**7,830**	5,540	**9,416**	9,202
Amortization of tenant incentives	**993**	906	**2,051**	1,807
Divisional FFO	**10,881**	10,728	**21,817**	21,804

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.