

PRESS RELEASE

for immediate distribution

Melcor Developments announces second quarter results, declares quarterly dividend of \$0.16 per share

Edmonton, Alberta | August 10, 2023

Melcor Developments Ltd. (TSX: MRD), an Alberta-based real estate development and asset management company, today reported results for the second quarter and six months ended June 30, 2023. Revenue was down 3% to \$101.32 million year-to-date and up 28% to \$17.43 million in the quarter as a result of the cyclical nature of the real estate industry and timing of sales in our current and comparative periods.

Year-to-date net income was \$23.79 million compared to \$28.38 million in 2022. In the quarter, net income was \$21.63 million compared to \$25.91 million in Q2-2022. Net income is significantly impacted by swings in non-cash fair value adjustments on investment properties, REIT units and the conversion feature on the REIT's convertible debenture. As a result management relies on Funds From Operations (FFO) as a better reflection of Melcor's true operating performance. In the quarter, FFO was up 47% to \$17.43 million or \$0.56 per share. Year-to-date, FFO was up 9% to \$24.48 million or \$0.78 per share. Increases in FFO were the direct result of higher gross profit achieved in both the quarter and year-to-date results.

Timothy Melton, Melcor's Executive Chair and Chief Executive Officer, commented: "We are pleased to present Melcor's results for the second quarter of 2023. Melcor continues to be well-positioned to meet demand for serviced residential lots and has the potential to bring on several new phases of development over the next few quarters. We are also excited to launch two new communities in 2023, Sora (located in Southeast Calgary, AB), and Goldwyn (located in the hamlet of Balzac, just north of Calgary city limits).

Our Property Development team continues to strategically develop commercial sites and at the end of the quarter had 104,284 sf under development. Our Investment Properties team sold seven residential units in Arizona for net proceeds of \$3.13 million (year-to-date) and also closed on the sale of Stafford Common, a industrial / retail building located in Lethbridge, AB, for proceeds of \$3.50 million on June 30, 2023. The REIT listed their Saskatchewan properties for sale as part of a strategic decision to focus on our Alberta markets. The sale of these properties would serve to reduce the REIT's operating loan to provide additional liquidity. The REIT also sold Kelowna Business Center in the first quarter for \$19.50 million.

Melcor has been operating in the real estate industry for 100 years, providing shelter to individuals, families, and businesses. The company's longevity results from being financially conservative and the ability to adapt to ever changing economic conditions. Melcor's Board of Directors and dedicated and capable employees remain focused on providing value to our shareholders."

Highlights

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 strong sales results and continued construction activity. Year-to-date, we sold 195 single-family lots compared to 404 last year in Canada. 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.

In our US Community Development region, we closed on 84 single-family lot sales in our Harmony Development (Denver, CO) in the US (2022: no lots sold in the US) which generated revenue of \$16.44 million at a gross margin of 49%. The US 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. These is currently 104,284 sf under active development and 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).

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.

Our **Recreational Properties** division 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 increase 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.

Selected Highlights

(\$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	(2.8)
Shareholders' equity	1,184,942	1,178,336	0.6
Total shares outstanding	30,923,007	31,248,628	(1.0)
Per Share Data (\$)			
Book value ⁽³⁾	38.32	37.71	1.6

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

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

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

MD&A and Financial Statements

Information included in this press release is a summary of results. This press release should be read in conjunction with Melcor's consolidated financial statements and management's discussion and analysis for the three and six months ended June 30, 2023, which can be found on the company's website at www.Melcor.ca or on SEDAR (www.sedar.com).

Non-GAAP & Non-Standard Measures

FFO is a key measure of performance used by real estate operating companies; however, that is not defined by International Financial Reporting Standards ("IFRS"), do not have standard meanings and may not be comparable with other industries or income trusts. This non-IFRS measures are more fully defined and discussed in the Melcor's management discussion and analysis for the period ended June 30, 2023, which is available on SEDAR at www.sedar.com.

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

Consolidated

(\$000s)	Three-months		Six-months	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Net income for the period	21,633	25,908	23,786	28,378
Amortization of operating lease 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)
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		Six-months	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 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 operating lease incentives	466	393	1,227	758
Divisional FFO	6,133	5,586	12,333	11,281

REIT

(\$000s)	Three-months		Six-months	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 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 operating lease incentives	993	906	2,051	1,807
Divisional FFO	10,881	10,728	21,817	21,804

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

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

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

About Melcor Developments Ltd.

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

Melcor has been focused on real estate since 1923. The company has built over 170 communities and commercial projects across Western Canada and today manages 4.70 million sf in commercial real estate assets and 469 residential rental units. Melcor is committed to building communities that enrich quality of life - communities where people live, work, shop and play.

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

Forward Looking Statements

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

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

This news release and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent Melcor's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Future-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 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 Risk in our annual MD&A and the additional disclosure under Business Environment and Risk in this MD&A.

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

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