Management's Discussion & Analysis

November 8, 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 September 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 November 8, 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.sedarplus.ca.

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.

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Our Business

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

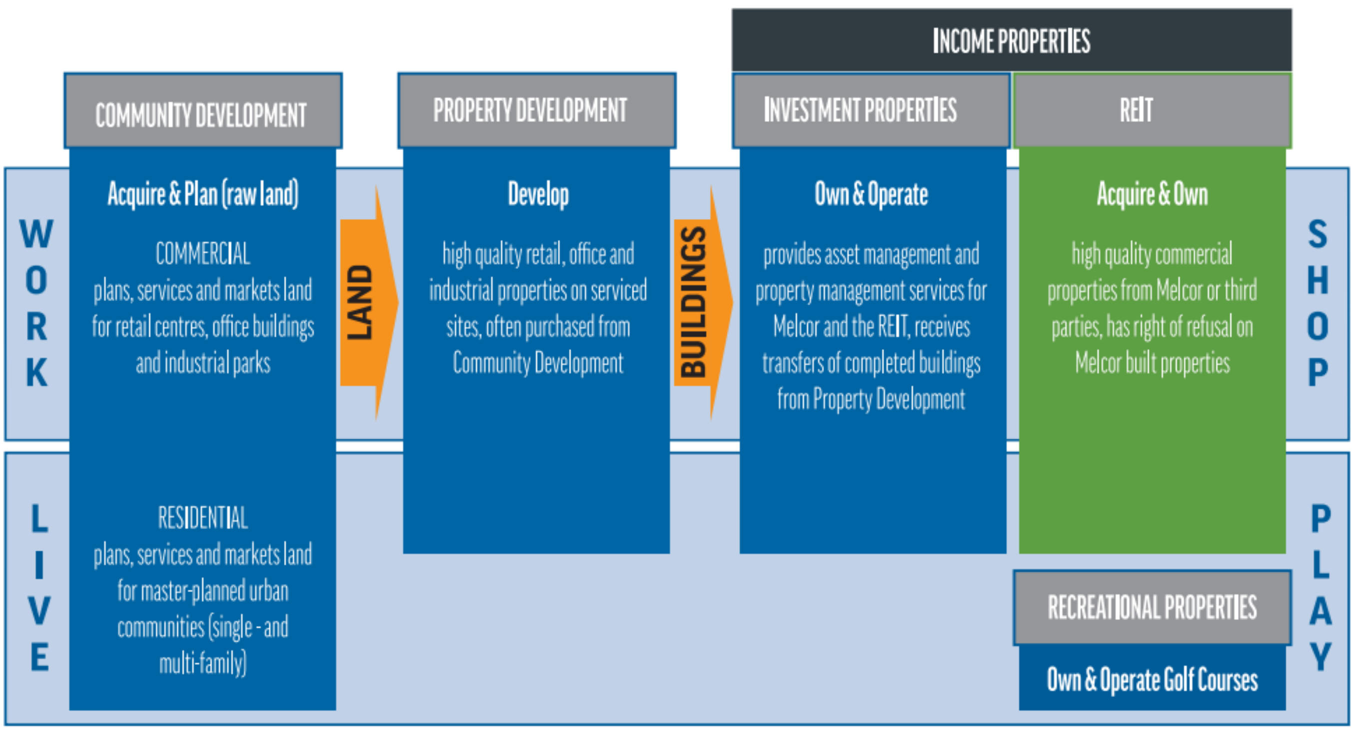
Since 1923, our focus has been the business of real estate. We've built over 170 communities and commercial projects across western Canada since the 1950s and have helped to shape much of Alberta's landscape. We manage 4.71 million square feet (sf) in commercial real estate assets and 469 residential 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 $2.14 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

Third 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.

($000s except as noted)	Three months ended September 30			Nine months ended September 30		
	2023	2022	Change %	**2023**	2022	Change %
Revenue	**88,781**	61,136	45	**190,105**	165,486	15
Gross margin[1]	**45.8 %**	49.3 %	(7)	**48.8 %**	49.1 %	(1)
Net income	**28,883**	23,774	21	**52,669**	52,152	1
Net margin[1]	**32.5 %**	38.9 %	(16)	**27.7 %**	31.5 %	(12)
FFO[2]	**22,416**	16,012	40	**46,893**	38,562	22
Per Share Data ($)						
Basic earnings	**0.94**	0.73	29	**1.70**	1.59	7
Diluted earnings	**0.94**	0.73	29	**1.69**	1.59	6
FFO[3]	**0.73**	0.49	49	**1.51**	1.18	28
Dividends	**0.16**	0.15	7	**0.48**	0.43	12

As at ($000s except share and per share amounts)	**30-Sept-2023**	31-Dec-2022	Change %
Total assets	**2,141,254**	2,167,050	(1)
Shareholders' equity	**1,209,566**	1,178,336	3
Total shares outstanding	**30,622,799**	31,248,628	(2)
Per Share Data ($)			
Book value (3)	**39.50**	37.71	5

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.

Melcor reported a strong third quarter, despite challenges in the market including inflation and higher interest rates. Notwithstanding market conditions, demand for homes has remained stable across our geographically dispersed Community Development division, and our Income Properties and Recreational Properties segments continues to generate stable results. To date in 2023, results have yielded a gross margin of 49%, consistent with 2022. With rising interest rates, we remain focused on managing liquidity and debt, and since year-end have reduced our general debt by $44.20 million or 6%. Quarterly dividends have remained stable at $0.16 per quarter, and year-to-date are up $0.12 compared to 2022.

Our Community Development division produced strong results, with revenue up 125% to $64.03 million and earnings up 155% to $25.34 million in the quarter, compared to Q3-2022. Year-to-date revenue was up 41% to $105.24 million and earnings was up 67% to $40.98 million. The largest driver of the increase in this division was our US region where we have successfully closed on the 205 single-family lots to date in 2023, generating revenue of $34.31 million at a gross margin of 49%. No lots were closed on in the US region in 2022. The US community development model differs from Canadian markets, and sales can fluctuate quarter-over-quarter due the nature of the US market with production builders buying lots in bulk and then building and selling the homes to consumers.

Our Property Development division had an active construction quarter, and completed and transferred one CRU (17,300 sf) for $7.90 million in our Woodbend development to Investments Properties. The Property Development division currently has 91,644 sf under active development and awaiting lease-up across six CRU's.

Our Income Properties, which include Investment Properties and REIT divisions, contributed 46% of revenue in 2023 compared to 53% in 2022. Occupancy deceased slightly to 87% (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 down 5% in Q3-2023 and 1% year-to-date. Revenue and NOI can be impacted by disposition of assets held and transfers from our Property Development division as new leases have fixturing and rent free periods which are adjusted for in our same-asset NOI calculation.

We continue to strategically assess our assets within our Income Properties segment, with an aim to focus on our core Alberta market. Earlier in the year we sold Kelowna Business Centre for $19.50 million, with net proceeds used to reduce our line of credit in Melcor REIT. We also sold Stafford Common, a retail building located in Lethbridge, AB for gross proceeds of $3.50 million. We have also listed our Saskatchewan investment properties for sale, held in Melcor REIT, and in accordance with IFRS have reclassified the three retail properties as assets held for sale. Year-to-date we have also sold 7 units at the Edge at Grayhawk in Phoenix, AZ for net proceeds of $3.13 million (US$2.32 million).

FINANCIAL HIGHLIGHTS

Revenue was up 45% to $88.78 million in Q3-2023 (Q3-2022: $61.14 million), and up 15% year-to date to $190.11 million (2022: $165.49 million). Gross profit was up 35% in the quarter to $40.64 million (Q3-2022: $30.16 million) and up 14% to $92.74 million year-to-date (2022: $81.20 million). Our Q3-2023 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 40% to $22.42 million in Q3-2023 (Q3-2022: $16.01 million) and up 22% to $46.89 million year-to-date (2022: $38.56 million). The increase in FFO year-to-date was a direct result of a higher gross profit, up $10.49 million in the quarter and up $11.55 million year-to-date.

Net income was up 21% to $28.88 million in Q3-2023 (Q3-2022: $23.77 million), with year-to-date results steady at $52.67 million (2022: $52.15 million). 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 Q3-2023 the fair value adjustment on REIT units swung by $3.37 million over Q3-2022 and $0.29 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 healthy sales activity in our Canadian markets, with the Edmonton and the Calgary region contributing the largest sales volume. 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 inconsistent sales being realized in this region. In the period, we saw 121 single-family lot sales in the US and 205 year-to-date (2022: no lots sold in the US) which to date in 2023 generating revenue of $34.31 million at a gross margin of 49%.

Year-to-date, we sold an additional 455 single-family lots in Canada, bringing our total single-family lot sales up to 660 compared to 676 in 2022. Our Calgary region is actively working on the launch of two new communities, Goldwyn (located in Balzac, AB) and Sora (located in Calgary, AB) with pre-sales providing a positive outlook and registration expected to happen in late 2023. We continue to move new communities and additional phases in existing neighbourhoods through the municipal approval process.

The **Property Development** division currently has 91,644 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 $0.89 million ($0.36 million in Q3-2022) and $2.25 million year-to-date (2022: $0.77 million).

Revenue from our **Income Properties** was down 5% in the quarter and 1% year-to-date. The reduction in revenue is a direct result of recent property sales as we sold Kelowna Business Centre (Kelowna, BC) an Stafford Common (Lethbridge, AB) earlier in the year. In 2022 we also sold 117 residential units in the US, reducing current year revenue. Combined occupancy saw a slight increase at 87% (Q3-2022: 86%)

Our golf courses (**Recreational Properties**) saw a 1% increase in rounds played to date compared to 2022. Due to the Kelowna fires our Black Mountain course saw a 5% reduction in rounds played comparative to 2022, but was offset by our Edmonton courses which saw a 5% increase in rounds played to date. Overall, we saw an increase in year-to-date revenue of 8% over 2022.

RETURNING VALUE

We continue to return value to our shareholders and unitholders:

Melcor Developments:

- We have paid quarterly dividends of $0.16 per share on March 30, 2023, June 30, 2023 and September 30, 2023.
- We have repurchased 625,829 shares for cancellation pursuant to the NCIB at a cost of $7.13 million year-to-date.
- On November 8, 2023 we declared a quarterly dividend of $0.16 per share, payable on December 29, 2023 to shareholders of record on December 15, 2023. The dividend is an eligible dividend for Canadian tax purposes.

Melcor REIT:

- The REIT paid monthly consistent distributions of $0.04 per unit per month from January 2023 to September 2023.
- On October 16, 2023 we declared a distribution of $0.04 per unit payable on November 15, 2023 to unitholders on record on October 31, 2023.

REVENUE & MARGINS

Consolidated revenue was up 45% to $88.78 million in the quarter (Q3-2022: $61.14 million), and up 15% to $190.11 million year-to date (2022: $165.49 million). Year-to-date revenue increase are the result of higher revenue in our Community Development division in the quarter and year-to-date, which is up 125% and 41% respectively over 2022.

Community Development accounted for 55% (2022: 45%) of our year-to-date revenue, after intersegment eliminations. Community Development revenues can vary quarter over quarter due to the timing of lot sales and plan registrations. Revenue from single-family lot sales was $85.73 million year-to-date, up from $65.37 million in 2022. Our Community Development division, saw an increase in its margins to 43% 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 46% of year-to-date revenue, after intersegment eliminations compared with 53% 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 down slightly at $86.98 million compared to $87.46 million. The decrease in revenue and margin is a direct result of the our recent property sales including Kelowna Business Centre, Dakotas at Camelback and Stafford Common. These sales were offset by an increase in WABR in both our Canadian and US markets.

Consolidated gross margin decreased to 46% in Q3-2023 (Q3-2022: 49%) and has remained steady at 49% year-to-date (2022: 49%). This variance 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 September 30			Nine months ended September 30		
	2023	2022	Change %	**2023**	2022	Change %
Net income for the period	**28,883**	23,774	21	**52,669**	52,152	1
Amortization of tenant incentives	**2,105**	2,738	(23)	**6,374**	5,620	13
Fair value adjustment on investment properties	**(5,736)**	(3,070)	87	**1,528**	247	519
Depreciation on property and equipment	**491**	533	(8)	**1,062**	1,141	(7)
Stock based compensation expense	**293**	514	(43)	**771**	847	(9)
Non-cash finance costs	**(1,924)**	(2,619)	(27)	**(1,509)**	(7,911)	(81)
Gain on sale of asset	**(41)**	(29)	41	**(48)**	(37)	30
Deferred income taxes	**160**	(126)	(227)	**(1,250)**	11	(11464)
Fair value adjustment on REIT units	**(1,815)**	(5,703)	(68)	**(12,704)**	(13,508)	(6)
FFO[1]	**22,416**	16,012	40	**46,893**	38,562	22
FFO per share[2]	**$0.73**	$0.49	49	**$1.51**	$1.18	28

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 40% or $6.40 million in the quarter over Q3-2022 and up 22% or $8.33 million year-to-date. The increase in FFO year-to-date was a direct result of a higher gross profit, up 35% to $10.49 million in the quarter and up 14% to $11.55 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)::

- 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 September 30,		Three months September 30,		Three months September 30,		Three months September 30,		Three months September 30,	
($000s except as noted)	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Revenue	**64,028**	28,411	**7,920**	3,310	**10,013**	11,593	**18,285**	18,189	**4,948**	4,857
Portion of total revenue %	**61 %**	43 %	**8 %**	5 %	**10 %**	17 %	**17 %**	27 %	**5 %**	7 %
Cost of sales	**(37,096)**	(17,211)	**(7,900)**	(3,200)	**(4,606)**	(4,372)	**(7,371)**	(7,307)	**(2,746)**	(2,644)
Gross profit	**26,932**	11,200	**20**	110	**5,407**	7,221	**10,914**	10,882	**2,202**	2,213
Gross margin %[1]	**42 %**	39 %	**– %**	3 %	**54 %**	62 %	**60 %**	60 %	**45 %**	46 %
Portion of total margin[1]	**59 %**	35 %	**– %**	– %	**12 %**	23 %	**24 %**	34 %	**5 %**	7 %
General and administrative expense	**(2,004)**	(1,942)	**(513)**	(465)	**(654)**	(505)	**(779)**	(783)	**(837)**	(845)
Fair value adjustment on investment properties	**—**	—	**890**	356	**(216)**	(4,263)	**1,051**	6,337	**–**	–
Gain on sale of assets	**—**	—	**—**	–	**–**	–	**–**	–	**41**	29
Interest income	**408**	661	**9**	2	**29**	8	**16**	7	**–**	1
Segment earnings	**25,336**	9,919	**406**	3	**4,566**	2,461	**11,202**	16,443	**1,406**	1,398

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Nine months September 30,		Nine months September 30,		Nine months September 30,		Nine months September 30,		Nine months September 30,	
($000s except as noted)	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Revenue	**105,239**	74,662	**7,986**	7,124	**31,585**	32,156	**55,398**	55,308	**10,357**	9,619
Portion of total revenue %	**50 %**	42 %	**4 %**	4 %	**15 %**	18 %	**26 %**	31 %	**5 %**	5 %
Cost of sales	**(60,068)**	(45,459)	**(7,900)**	(6,900)	**(13,532)**	(12,722)	**(23,233)**	(22,846)	**(5,422)**	(5,021)
Gross profit	**45,171**	29,203	**86**	224	**18,053**	19,434	**32,165**	32,462	**4,935**	4,598
Gross margin %[1]	**43 %**	39 %	**1 %**	3 %	**57 %**	60 %	**58 %**	59 %	**48 %**	48 %
Portion of total margin[1]	**45 %**	34 %	**– %**	– %	**18 %**	23 %	**32 %**	38 %	**5 %**	5 %
General and administrative expense	**(5,641)**	(5,586)	**(1,543)**	(1,664)	**(2,237)**	(2,201)	**(2,294)**	(2,381)	**(2,166)**	(2,070)
Fair value adjustment on investment properties	**—**	—	**2,251**	766	**(724)**	(549)	**(8,365)**	(2,865)	**–**	–
Gain on sale of assets	**—**	—	**—**	–	**–**	–	**–**	–	**48**	37
Interest income	**1,447**	973	**18**	2	**72**	14	**46**	22	**5**	2
Segment earnings (loss)	**40,977**	24,590	**812**	(672)	**15,164**	16,698	**21,552**	27,238	**2,822**	2,567

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.

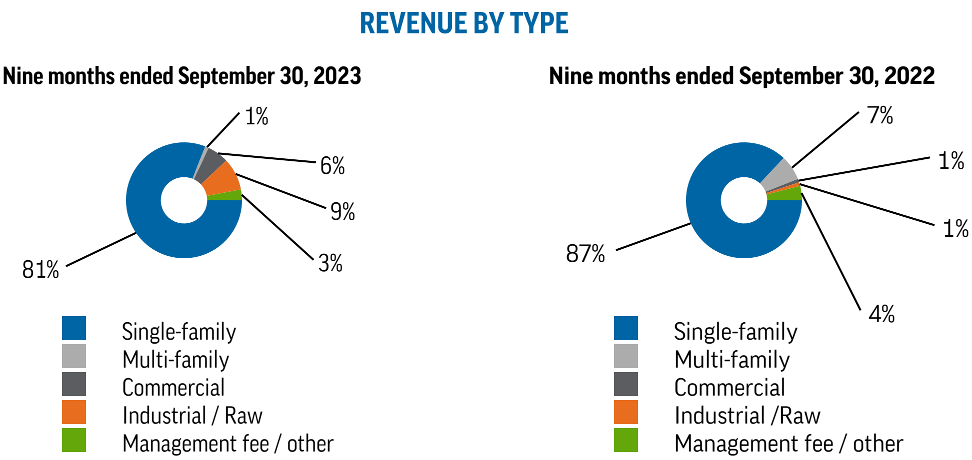
Community Development

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 September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
Canada Sales data: (including joint ventures at 100%)[1]				
Single-family sales (number of lots)	**260**	272	**455**	676
Gross average revenue per single-family lot ($)	**151,843**	138,464	**161,536**	150,763
Multi-family sales (acres)	**–**	–	**3.73**	13.07
Gross average revenue per multi-family acre ($)	**–**	–	**950,000**	802,357
Commercial sales (acres)	**12.07**	–	**12.07**	1.91
Gross average revenue per commercial land acre ($)	**1,267,937**	–	**1,267,937**	512,304
Industrial sales (acres)	**5.50**	–	**6.95**	0.95
Gross average revenue per industrial land acre ($)	**498,818**	–	**490,719**	452,631
Land sales to government bodies - raw, other (acres)	**–**	0.35	**4.52**	0.85
Gross average revenue per other land acre ($)	**–**	175,997	**168,850**	95,999
US Sales data:				
Single family sales (number of lots)	**121**	–	**205**	–
Gross average revenue per single-family lot ($)	**147,748**	–	**164,334**	–
Divisional results: (including joint ventures at Melcor's interest)[1]				
Revenue ($000s)	**64,028**	28,411	**105,239**	74,662
Earnings ($000s)	**25,336**	9,919	**40,977**	24,590

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.

Our Community Development division had a strong quarter with revenues up 125% compared to Q3-2022 to $64.03 million (Q3-2022: $28.41 million) and up 41% year-to-date compared to 2022 to $105.24 million (2022: $74.66 million). Divisional earnings was up 155% compared to Q3-2022 to $25.34 million (Q3-2022 - $9.92 million) and up 67% year-to-date compared to 2022 to $40.98 million (2022 - $24.59 million).

Year-to-date 2023 revenues include 205 lots sold in the US, compared to no lots sold in the US in 2022. These US sales accounted for $34.31 million of the divisions revenue and $16.87 million in gross profit year-to-date and account for the largest portion of increased revenue and earnings compared to 2022. The US community development model differs from Canadian markets, and sales can fluctuate quarter-over-quarter due the nature of the US market with production builders buying lots in bulk and then build and sell the homes to consumers.

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. 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.

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 Q3-2023 to 42% and 43% year-to-date over 2022 (Q3-2022: 39%; 2022: 39%).

In the quarter, we sold 260 single-family lots (Q3-2022: 272) and 455 single-family lots year-to-date (2022: 676) in our Canadian markets. The Edmonton region contributed the largest volume of single-family lot sales in both Q3-2023 at 209 and year-to-date at 343 (Q3-2022: 59 ; 2022: 347). The Calgary region sold 12 single-family lot sales in the quarter and 63 year-to-date (Q3-2022: 175 ; 2022: 238). The timing of plan registrations can have a significant impact when revenue is recorded. We currently have commitments on a number of lot sales which are expected to close in the fourth quarter subsequent to the registration of the phases.

In Q3-2023 we sold 14.42 acres of commercial and industrial land within our Edmonton region including 8.92 acres within our Secord commercial development (Edmonton, AB) to our Property Development division for $6.42 million at joint venture interest and 5.50 acres in our Telford industrial development for $2.74 million (Leduc, AB) to a third party. We also sold 3.15 acres of industrial land at the District development in our Calgary region for $4.60 million to third parties.

Year-to-date we also 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 in our Telford Industrial development. Land sales, including commercial, multi-family and industrial sites, vary by quarter and can lead to inconsistent revenue.

The average sale price on single-family lots increased 7% from Q3-2022 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.

Our construction program has been active in the year with 10 new phases registered in 8 communities year-to-date (2022: 15 phases in 12 communities). 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 September 30, 2023			Three months ended September 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	**209**	**–**	**14.42**	59	–	–
Red Deer	**18**	**–**	**–**	15	–	–
Calgary Region	**12**	**–**	**3.15**	175	–	0.35
Lethbridge	**6**	**–**	**–**	22	–	–
Kelowna	**15**	**–**	**–**	1	–	–
United States	**121**	**–**	**–**	–	–	–
	381	**–**	**17.57**	272	–	0.35

(including joint ventures at 100%)	**Nine months ended September 30, 2023** Single- family (Lots)	Multi-family (Acres)	Other (Acres)	Nine months ended September 30, 2022 Single- family (Lots)	Multi-family (Acres)	Other (Acres)
Edmonton Region	**343**	**3.73**	**15.87**	347	7.77	0.95
Red Deer	**25**	**–**	**–**	41	–	1.91
Calgary Region	**63**	**–**	**3.15**	238	–	0.35
Lethbridge	**6**	**–**	**–**	34	5.30	–
Kelowna	**18**	**–**	**–**	16	–	–
Saskatchewan	**–**	**–**	**–**	–	–	0.50
United States	**205**	**–**	**–**	–	–	–
	660	**3.73**	**19.02**	676	13.07	3.71

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:

(including joint ventures at 100%)	**Nine months ended September 30, 2023** Single- family (Lots)	Multi-family (Acres)	Other (Acres)	Nine months ended September 30, 2022 Single- family (Lots)	Multi-family (Acres)	Other (Acres)
Open	**949**	**58.19**	**116.33**	685	61.71	123.30
New developments	**485**	**3.73**	**19.14**	485	5.46	1.91
Redevelopment	**–**	**–**	**–**	36	(3.34)	–
Internal sales	**–**	**–**	**(8.92)**	–	–	–
Sales	**(660)**	**(3.73)**	**(10.10)**	(676)	(13.07)	(2.86)
	774	**58.19**	**116.45**	530	50.76	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 $0.76 million or $0.17 million per acre.

To date in 2023 we have purchased 80 acres of land in Acheson, AB for $2.40 million, and 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 September 30,**		**Nine months ended September 30,**	
	2023	2022	**2023**	2022
Fair value gains on investment properties	**890**	356	**2,251**	766
Management fees revenue	**20**	110	**86**	224
Revenue from property transfers	**7,900**	3,200	**7,900**	6,900
Total revenue	**7,920**	3,310	**7,986**	7,124
Margin (%) on property transfers	**11 %**	22 %	**11 %**	16 %
Square footage transferred (sf, at 100%)	**17,300**	12,660	**17,300**	19,709
Number of buildings transferred	**1**	1	**1**	2

In the quarter and year-to-date we have completed and transferred one property (17,300 sf) for $7.90 million in our Woodbend Retail development (Leduc, AB). In 2022 we transferred two properties (19,709 sf) for $6.90 million year-to-date.

With an active third quarter, our Property Development division currently has 34,179 sf in active construction on two CRU's within our Woodbend Retail development (Leduc, AB). We have an additional 56,925 sf waiting lease-up including a 9,967 sf CRU at Chestermere Station (Chestermere, AB), a 9,903 sf CRU at our Woodbend Retail development (Leduc, AB) and two CRU's totaling 37,055 sf at our Greenwich development (Calgary, AB).

Continued development and leasing in these projects resulted in fair value gains of $0.89 million during the quarter and $2.25 million year-to-date (Q3-2022: $0.36 million ; 2022: $0.77 million). 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 a total of 91,644 sf under active development or awaiting lease-up.

Regional Highlights

($000s and at JV%, except as noted)	**Three months ended September 30,**		**Nine months ended September 30,**	
Fair value adjustments by region	**2023**	2022	**2023**	2022
Northern Alberta	**850**	139	**1,568**	549
Southern Alberta	**40**	217	**683**	217
	890	356	**2,251**	766

Northern Alberta: In the quarter we recognized $0.85 million in fair value gains and year-to-date we recognized $1.57 million in fair value gains (Q3-2022: $0.14 million; 2022: $0.55 million). We are actively working on the construction of two buildings at Woodbend Market (Leduc, AB) totaling 34,179 sf and also have a 9,903 sf CRU awaiting lease-up at that site.

Southern Alberta: In the quarter we recognized $0.04 million in fair value gains and year-to-date we recognized $0.68 million in fair value gains (Q3-2022: $0.22 million; 2022: $0.22 million). Construction on our final CRU at Chestermere Station (Chestermere, AB) is near completion (9,967 sf) and we are actively working to leasing. This building will complete the development of the 40-acre regional shopping centre that Melcor has been developing since 2010. We have also completed construction on two buildings (37,055 sf) in our Greenwich development located in Calgary, AB that are currently awaiting lease-up.

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	44,622
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 4.71 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-Sept-2023**	31-Dec-2022
Commercial properties GLA under management (sf, total)	**4,714,065**	4,804,248
Properties owned and managed (sf)	**1,112,921**	1,135,418
Properties managed (sf)	**3,601,144**	3,668,830
Residential units managed	**469**	476
Occupancy - CAD	**85.5 %**	89.3 %
Occupancy - US	**79.7 %**	82.6 %
Weighted Average Base Rent (per sf) - CAD	**$28.84**	$27.02
Weighted Average Base Rent (per sf) - US	**$21.87**	$20.32

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

($000s and at JV%, except as noted)	**Three months ended September 30,**		**Nine months ended September 30,**	
	2023	2022	**2023**	2022
Revenue (total)	**10,013**	11,593	**31,585**	32,156
Canadian properties	**5,358**	6,338	**16,922**	16,403
US properties	**3,147**	3,765	**10,004**	11,217
Management fees	**1,248**	1,271	**3,923**	3,994
Parking lots and other assets	**260**	219	**736**	542
Net operating income (NOI)[1]	**6,282**	6,289	**19,597**	18,609
Funds from operations[1]	**5,434**	7,139	**17,767**	18,420
Funds from operations per share[2]	**$0.18**	$0.22	**$0.58**	$0.57

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 acquire properties that are developed and transferred from Property Developments. The Property Development division has 91,644 sf of GLA under active construction or completed and awaiting lease up. In the quarter we transferred one property (17,300 sf) within our Woodbend Market development. 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.

Straight-line rent adjustment (SLR) saw significant swings in the quarter and year-to-date of $1.48 million and $1.44 million respectively. SLR can be affected the timing of new lease commencements, and rent-free periods. In 2022, a single tenant occupying 55,201 sf opened and received rent-free period impacting our quarter-over-quarter and year-over-year comparative. This single tenant caused a swing of $1.00 million in SLR over 2022. SLR is included in rental revenue, and NOI but as it is non-cash, it is excluded from FFO. These swings in SLR were the largest contributor to the decrease in FFO noted in the above table.

On June 30, 2023 we 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 down to 86% (2022: 89%) and WABR was up 7% at $28.84 (2022: $27.02). Occupancy and WABR are impacted by transfers from the Property Development division as new leases have both fixturing and rent free periods. Excluding the newly transferred properties, occupancy in Q3-2023 was 88%.

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

($000s and at JV%, except as noted)	**Three months ended September 30,**		**Nine months ended September 30,**	
	2023	2022	**2023**	2022
Same-asset NOI[1]	**3,087**	2,913	**8,904**	8,516
Third party disposals	**(19)**	(9)	**48**	7
Properties transferred from PD	**1,045**	474	**3,070**	1,515
NOI[1]	**4,113**	3,378	**12,022**	10,038
Amortization of tenant incentives	**(237)**	(177)	**(1,019)**	(511)
Straight-line rent adjustment	**(177)**	1,300	**349**	1,784
Gross profit	**3,699**	4,501	**11,352**	11,311

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

Gross profit was down 18% or $0.80 million in the quarter and consistent year-to-date. NOI increased by 22% or $0.74 million in the quarter and 20% or $1.98 million year-to-date.

Gross profit and NOI are impacted by property sales and transfers from the Property Development division. Same asset NOI is adjusted for these factors for a more direct period-over-period comparison. On a same-asset basis, NOI was up 6% in the quarter and 5% year-to-date.

US properties

Dispositions: 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 $3.15 million in Q3-2023 and $10.00 million year-to-date (Q3-2022: $3.77 million; 2022: $11.22 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 table below.

Compared to year end, occupancy decreased slightly to 80% (2022: 83%) and WABR increased by 8% to $21.87 (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 September 30,**		**Nine months ended September 30,**	
	2023	2022	**2023**	2022
Same-asset NOI[1]	**719**	1,152	**2,827**	3,374
Third party disposals	**–**	138	**(13)**	538
NOI[1]	**719**	1,290	**2,814**	3,912
Foreign currency translation	**250**	392	**979**	1,105
Amortization of tenant incentives	**(415)**	(238)	**(860)**	(662)
Straight-line rent adjustment	**(46)**	47	**(14)**	214
Gross profit	**508**	1,491	**2,919**	4,569

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

Gross profit was down $0.98 million in Q3-2023 and $1.65 million year-to-date due to the sale of rental units over the trailing 12 months. Same-asset NOI decreased 38% in the quarter and 16% year-to date or $0.43 million and $0.55 million respectively. We typically expect same-asset NOI to have a similar comparative period-over-period and year-to-date result but due to timing of direct expenditures along with the impact of reduced occupancy in the region reducing revenues, we saw a decline in same-asset NOI in both the quarter and year-to-date.

Management fees & other

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

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 decreased 24% or $1.71 million in the quarter and 4% or $0.65 million year-to-date. The quarterly and year-to-date decrease in FFO is attributed the reduction in revenue and gross profits due to the sale of recent properties and transfers from our Property Development division.

REIT

The REIT owns 38 income-producing office, retail and industrial properties, comprising 3.15 million sf of GLA at September 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 November 8, 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-Sept-2023**	31-Dec-2022
Commercial properties GLA under management (sf, total)	**3,148,417**	3,216,141
Fair value of portfolio[1]	**697,944**	700,182
Occupancy	**88.9 %**	88.1 %
Weighted average base rent (per sq. ft.)	**16.93**	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 September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
Rental revenue	**18,285**	18,189	**55,398**	55,308
NOI[1]	**11,894**	11,613	**35,105**	34,859
Same-asset NOI[1] *(see calculation following)*	**11,168**	10,729	**33,088**	32,377
Fair value adjustment on investment properties	**1,051**	6,337	**(8,365)**	(2,865)
Funds from operations[1]	**11,119**	11,062	**32,936**	32,866
Funds from operations per share[2]	**$0.36**	$0.34	**$1.06**	$1.00

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

Rental revenue was up 1% in Q3-2022, and is stable year-to-date. Base rents were also up 1% in the quarter and remained stable 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 improved 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 2% over Q3-2022 and is up 3% year-to-date. Direct operating expenses were up at 1% over Q3-2022 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 547,851 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 September 30, 2023, we have retained 92% (458,229 sf) of expiring leases and have received commitment on an additional 67,930 sf of future renewals representing a committed occupancy of 91%. In the year, we completed 89,622 sf in new leases. 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 down 3% in the quarter, and are up 1% 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.

Operating expenses can vary quarter over quarter due to the timing of maintenance projects. Overall, we have seen increases in costs as a result of inflationary pressures. In Q3-2023, operating expenses were up 6% and have increased 3% year-to-date.

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

($000s except as noted)	**Three months ended September 30,**		**Nine months ended September 30,**	
	2023	2022	**2023**	2022
Same-asset NOI[1]	**11,168**	10,729	**33,088**	32,377
Disposals	**726**	884	**2,017**	2,482
NOI before adjustments	**11,894**	11,613	**35,105**	34,859
Amortization of tenant incentives	**(968)**	(956)	**(3,019)**	(2,763)
Straight-line rent adjustment	**(12)**	225	**79**	366
Net rental income	**10,914**	**10,882**	**32,165**	**32,462**

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 in the second quarter. Year-to-date, NOI is up 1% and same-asset NOI is up 2%. In the quarter, NOI was up 2% and same-asset NOI was up 4%.

Net rental income in the quarter was consistent with Q3-2022, and year-to-date was down 1%. NOI in the period was up 2% over Q3-2022, and 1% year-to-date. On a same-asset basis, NOI was up 4% in the quarter and 2% 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 consistent over 2022 in both the period and year-to-date at $11.12 million and $32.94 million respectively (Q3-2022: $11.06 million; 2022:$32.87 million).

Recreational Properties

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

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

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

Revenue in the Recreational Properties division increased 8% to $10.36 million (2022: $9.62 million). Despite our Black Mountain course being down 5% in number of rounds played due to the wildfires we saw over the summer in the region, we saw an overall increase of 2% in number of rounds played due to the efforts of our Edmonton courses increasing total number of rounds played 5% over 2022.

All courses closed subsequent to the third quarter of 2023.

		2023			2022		
		Season opened	**Seasoned closed**	**Rounds of Golf**	Season opened	Seasoned closed	Rounds of Golf
Managed by Melcor:							
Lewis Estates (Edmonton)	60%	**April 19**	**October 21**	**30,145**	April 22	October 28	28,540
The Links (Spruce Grove)	100%	**April 20**	**October 21**	**28,588**	April 22	October 28	27,213
Black Mountain (Kelowna)	100%	**April 4**	**October 27**	**33,284**	March 30	October 31	35,030
Managed by a Third Party:							
Jagare Ridge (Edmonton)	50%	**April 25**	**October 15**	**24,551**	April 29	October 16	23,549

General & Administrative Expense

G&A expenses were down 6% in the quarter and 3% year-to-date to $5.93 million and $17.15 million respectively (Q3-2022 $6.33 million; 2022: $17.65 million). Our 2022 year-to-date G&A included higher than usual 3rd party property appraisal, legal and accounting fees that 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 nine months ended September 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 September 30, 2023, compared with December 31, 2022.

As at ($000s except as noted)	**30-Sept-2023**	31-Dec-2022
Cash & cash equivalents	**62,379**	80,465
Restricted cash	**1,758**	2,761
Accounts receivable	**7,449**	12,487
Agreements receivable	**84,099**	97,232
Revolving credit facilities	**129,931**	128,473
Accounts payable and accrued liabilities	**54,673**	53,213
Total assets	**2,141,254**	2,167,050
Total liabilities	**931,688**	988,714
Debt to equity ratio[1]	**0.77**	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 $137.71 million as at September 30, 2023 (December 31, 2022: $157.71 million). Our total general debt outstanding was $696.16 million as at September 30, 2023 (December 31, 2022: $740.37 million).

A summary of our debt is as follows:

As at ($000s)	30-Sept-2023	31-Dec-2022
Melcor - revolving credit facilities	**95,370**	96,839
REIT - revolving credit facility	**34,561**	31,634
Project specific financing	**9,603**	22,597
Secured vendor take back debt on land inventory	**—**	5,717
Debt on investment properties and golf course assets	**511,588**	539,110
REIT - convertible debentures	**45,039**	44,468
General debt	**696,161**	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 September 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 September 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		Nine months ended	
	30-Sept-2023	30-Sept-2022	30-Sept-2023	30-Sept-2022
Cash flow from operating activities	**35,118**	8,634	**40,980**	7,477
Cash flow from (used in) investing activities	**(6,450)**	(5,629)	**7,376**	(7,885)
Cash flow from (used in) financing activities	**(12,683)**	6,548	**(66,593)**	21,669

Operating Activities:

Cash from operating activities was up $26.48 million to $35.12 million in Q3-2023 (Q3-2022: $8.63 million) and up $33.50 million to $40.98 million year-to date (2022: $7.48 million). 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 made and received. In the current quarter, operating assets and liabilities had a positive impact on cash of $15.44 million (Q3-2022: $9.06 million) and year-to-date had a positive impact of $6.83 million (2022: $9.16 million negative impact). The change in balance on our collections on agreements receivable created a swing of $19.52 million in the quarter and $14.54 million year-to-date due to timing of sales and receipts. Year-to-date collections of agreements receivable has contributed $13.13 million to cash from operating activities compared to $27.67 million in 2022.

Development activities in the quarter resulted in $1.25 million in net cash inflows, compared to $26.86 million cash outflows in Q3-2022. Year-to-date development activities resulted in cash outflows of $12.90 million compared to $31.40 million in 2022. Tenant incentives and direct leasing costs were down in the quarter at $2.30 million (Q3-2022: $5.34 million) and down to $7.96 million year-to-date (2022: $9.94 million).

Year-to-date we have purchased a total of 120 acres of land in the year including 80 acres in Acheson, AB and 40 acres in Leduc, AB for a total of $4.80 million. There were no purchases in the quarter. In 2022 we purchased 13.01 acres of land in Buckeye, AZ for a total of $4.25 million (USD$3.30 million).

Investing Activities:

Cash used in investing activities was $6.45 million in Q3-2023 (Q3-2022: $5.63 million). Year-to-date, we generated net cash inflows from investing activities of $7.38 million (2022: $7.89 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 $6.12 million in the quarter (Q3-2022: $6.74 million) and $17.47 million year-to-date (2022: $11.21 million) on additions to our investment properties. Included in this amount is spend related to our Property Development division which has had an active year, contributing to additions to our investment properties spend. In Q3-2023 our property development contributed $4.18 million (Q3-2022: $5.40 million) and $14.70 million year-to-date (2022: $8.68 million).

Cash spent on investing activities was offset by cash generated on the sale of investment properties. Year-to-date we have sold two commercial properties including one retail property in Lethbridge for net proceeds of $3.27 million and the sale of Kelowna Business Centre, for net proceeds of $19.03 million (including $1.00 million of restricted cash held at year end). We have also sold an additional seven residential units in the US, which generated net cash of $3.13 million (USD$2.32 million).

Financing Activities:

Cash used in financing activities was $12.68 million in Q3-2023 compared with cash generated in Q3-2022 of $6.55 million. Year-to-date cash used in financing activities was $66.59 million compared with cash generated in 2022 of $21.67 million.

During the quarter, we made net repayments on our credit facility of $0.31 million (Q3-2022: cash draws of $27.99 million) with year-to-date net draws of $1.46 million (2022: $55.71 million). We saw repayment on our general debt of $9.24 million in the quarter (Q3-2022: $36.71 million) and $70.51 million year-to-date (2022: $84.93 million), which includes the loan payout of Kelowna Business Center, and Chauncey Property (US).

We paid dividends of $0.16 per share in Q3-2023 for a total of $4.90 million compared to $0.15 per share in Q3-2022 for a total of $4.81 million. Year-to-date we have paid a total of $14.85 million in dividends compared to $13.98 million in 2022.

Share Data

Melcor has been a public company since 1968 and trades under the symbol “MRD” on the Toronto Stock Exchange. As at September 30, 2023 there were 30,622,799 common shares issued and outstanding, 223,000 options, and 309,328 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 September 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 September 30, 2023, 625,829 shares were purchased for cancellation by Melcor pursuant to the NCIB at a cost of $7.13 million (December 31, 2022 - 1,777,662 shares purchased at a cost of $21.44 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
($000s)	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**
Revenue	88,781	65,247	36,077	76,261	61,136	51,044	53,306	150,598
Net income	28,883	21,633	2,153	37,202	23,774	25,908	2,470	44,769
FFO[1]	22,416	17,432	7,045	22,297	16,012	11,853	10,697	42,311
Per Share ($)								
Basic earnings	0.94	0.69	0.07	1.15	0.73	0.79	0.08	1.35
Diluted earnings	0.94	0.69	0.07	1.15	0.73	0.79	0.07	1.35
FFO basic[2]	0.73	0.56	0.23	0.70	0.49	0.36	0.33	1.28
Book value[2]	39.50	38.32	37.63	37.71	35.55	34.78	33.81	33.87

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 September 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 September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
Segment Earnings	**4,566**	2,461	**15,164**	16,698
Fair value adjustment on investment properties	**216**	4,263	**724**	549
General and administrative expenses	**654**	505	**2,237**	2,201
Interest income	**(29)**	(8)	**(72)**	(14)
Amortization of tenant incentives	**652**	415	**1,879**	1,173
Straight-line rent adjustment	**223**	(1,347)	**(335)**	(1,998)
Divisional NOI	**6,282**	6,289	**19,597**	18,609

REIT

($000s)	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
Segment Earnings	**11,202**	16,443	**21,552**	27,238
Fair value adjustment on investment properties	**(1,051)**	(6,337)	**8,365**	2,865
General and administrative expenses	**779**	783	**2,294**	2,381
Interest income	**(16)**	(7)	**(46)**	(22)
Amortization of tenant incentives	**968**	956	**3,019**	2,763
Straight-line rent adjustment	**12**	(225)	**(79)**	(366)
Divisional NOI	**11,894**	11,613	**35,105**	34,859

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 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 September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
Net income for the period	**28,883**	23,774	**52,669**	52,152
Amortization of tenant incentives	**2,105**	2,738	**6,374**	5,620
Fair value adjustment on investment properties	**(5,736)**	(3,070)	**1,528**	247
Depreciation on property and equipment	**491**	533	**1,062**	1,141
Stock based compensation expense	**293**	514	**771**	847
Non-cash finance costs	**(1,924)**	(2,619)	**(1,509)**	(7,911)
Gain on sale of asset	**(41)**	(29)	**(48)**	(37)
Deferred income taxes	**160**	(126)	**(1,250)**	11
Fair value adjustment on REIT units	**(1,815)**	(5,703)	**(12,704)**	(13,508)
FFO	**22,416**	16,012	**46,893**	38,562

Investment Properties

($000s)	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
Segment Earnings	**4,566**	2,461	**15,164**	16,698
Fair value adjustment on investment properties	**216**	4,263	**724**	549
Amortization of tenant incentives	**652**	415	**1,879**	1,173
Divisional FFO	**5,434**	7,139	**17,767**	18,420

REIT

($000s)	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
Segment Earnings	**11,202**	16,443	**21,552**	27,238
Fair value adjustment on investment properties	**(1,051)**	(6,337)	**8,365**	2,865
Amortization of tenant incentives	**968**	956	**3,019**	2,763
Divisional FFO	**11,119**	11,062	**32,936**	32,866

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.