Management's Discussion & Analysis

March 13, 2024

The following discussion of Melcor's financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 2023.

The financial statements underlying this MD&A, including 2022 comparative information, have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards) unless otherwise noted. All dollar amounts included in this MD&A are Canadian dollars unless otherwise specified.

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

Melcor's Board of Directors, on the recommendation of the Audit Committee, approved the content of this MD&A on March 13, 2024.

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 Accounting Standards. These non-standard measures may not be comparable to similar measures presented by other companies. We believe that these non-standard measures are useful in assisting investors in understanding components of our financial results. For a definition of these measures, refer to the section "Non-GAAP and Non-standard Measures".

Forward-looking Statements

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

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

This MD&A and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent Melcor's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Forward-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2024 and beyond, future development plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook of our operations.

By their nature, forward-looking statements require assumptions and involve risks and uncertainties related to the business and general economic environment, many beyond our control. There is significant risk that the predictions, forecasts, valuations, conclusions or projections we make will not prove to be accurate and that our actual results will be materially different from targets, expectations, estimates or intentions expressed in forward-looking statements. We caution readers of this document not to place undue reliance on forward-looking statements. Assumptions about the performance of the Canadian and US economies and how this performance will affect Melcor's business are material factors we consider in determining our forward-looking statements. For additional information regarding material risks and assumptions, please see the discussion under Business Environment and Risks in our annual MD&A.

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

TABLE OF CONTENTS

Our Business

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

Since 1923, our focus has been the business of real estate. We've built over 170 communities and commercial projects across western Canada since the 1950s and have helped to shape much of Alberta's landscape. We manage 4.77 million square feet (sf) in commercial real estate assets and 466 residential rental units. We have been a public company since 1968 (TSX:MRD). Melcor has $2.10 billion in assets.

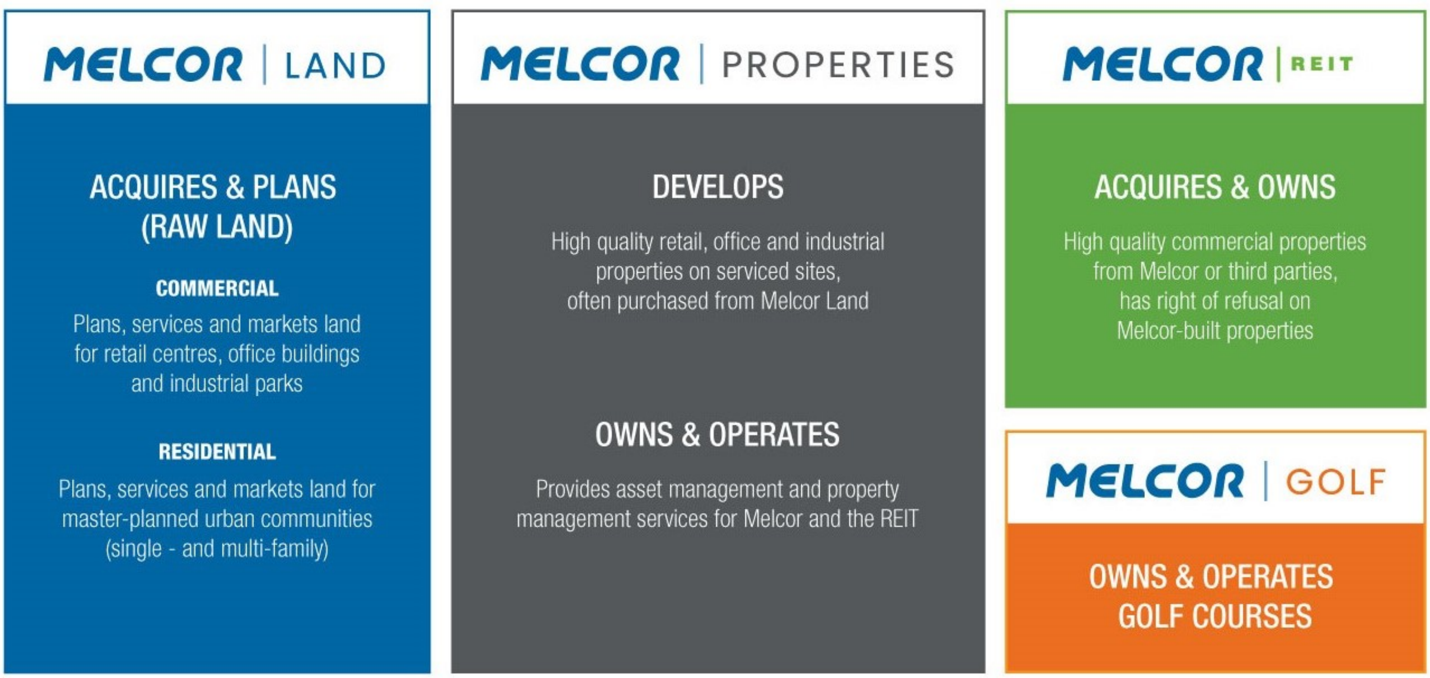
We are committed to building communities that enrich quality of life - communities where people live, work, shop and play.

Melcor operates five integrated divisions (including the REIT) that together manage the full life cycle of real estate development:

1. Land: acquires raw land and plans residential communities and commercial developments
2. Properties: operates a portfolio of commercial and residential properties and development of commerical properties.
3. REIT: has an established and diversified portfolio of 38 income-producing office, retail and industrial properties representing 3.15 million sf in gross leasable area.
4. Golf: owning and operating championship golf courses associated with our residential communities.
5. Corporate: orchestrates strategic planning, financial governance, risk mitigation guiding the organization though dynamic market shifts towards sustained and adaptive success.

We use the term "Income Properties" to describe our Properties and REIT divisions which includes the portfolio of commercial and residential properties owned and managed by Melcor.

The following diagram illustrates how each of our divisions complement one another to create and enhance value from our real estate assets:



In addition to extending the value of our asset base, these diversified operating divisions enable us to manage our business through real estate cycles (both general market conditions and the seasonality associated with construction and development) and diversify our revenue base.

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

Our headquarters are in Edmonton, Alberta, with regional offices across Alberta, in Kelowna, British Columbia and in Phoenix, Arizona. Our developments span western Canada and Colorado and Arizona in the US.

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

Strategy

Our fundamental goals are to:

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

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

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

LAND: Development

In 2023, Alberta's land development market saw a modest resurgence in activity. The province's economic recovery, combined with boosted investor confidence fostered growth and fueled activity. Sales remained strong in our Land division in 2023. We developed 1,041 new single-family lots and sold 1,149 in Canada and developed and sold 234 single-family lots in the US. We continue to manage inventory levels to meet demand.

Major urban hubs like Calgary and Edmonton experienced increased construction in both residential and commercial sectors, driven by rising demand. Despite these positive trends, challenges such as increased interest rates and operational costs continue to influence the landscape, necessitating a balance between growth and prudent risk management for stakeholders.

Our Calgary region had an incredible year despite prior economic setbacks. During the year, we developed 590 and sold 581 single-family lots and 9.37 acres of developed land in this region for $85.57 million in revenue, up from $49.41 million in 2022.

The US housing market differs from the Canadian market, with a more significant response to rising interest rates. In 2023 we were able to combat market uncertainties and sold 234 single-family lot sales in Harmony (Denver, CA area) for revenue of $40.75 million. No lots were sold in the prior year in the US.

PROPERTIES & REIT: Property Development & Asset Management

In 2023 we merged our "Investment Properties" and "Property Development" divisions into the above referenced Properties division. The coming together of these two divisions is intended to create synergies in business processes related to development, leasing and property management.

Our Properties and REIT divisions, together referred to as Income Properties, manage 4.77 million sf of income-generating assets, providing stable results throughout the year to smooth out the seasonal nature of construction related divisions. Revenue from our Income Properties contributed 35% of total revenue and 45% of total gross profit in 2023. Our Income Properties provide geographic and revenue diversification and have served to offset the cyclical nature of residential development.

Commercial property development, particularly neighbourhood shopping centres, continues at a solid pace as pre-lease thresholds are met. We remain focussed on value creation and as a result of higher construction costs and inflationary pressures, have been prudent in determining which sites to develop on. With a focus on local services – bank, coffee, daycare, dental/medical, gas, grocery, pharmacy, restaurants and fast food – these retail hubs face less competition from online shopping options. In 2023, the properties team completed construction on 2 retail buildings (22,140 sf) at our Woodbend retail development in Edmonton.

We have over 100 years of experience in Alberta's cyclical economy. Throughout this time, we have managed through many downturns and have learned to not only weather the cycle, but to make our business stronger by recognizing and participating in opportunities while balancing our risk and exposure. All economic indicators point to upward momentum in Alberta's economy and we are well-positioned to participate in opportunities while also maintaining our conservative approach to real estate development.

Pillars of our Strategy

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

Assets

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

Segment	Assets	Strategy
Land	9,815 acres of raw land inventory in strategic growth corridors	Maintain right mix of inventory, available at the right time to meet market needs Increase market share by maintaining best in class design and community amenities.
Properties & REIT	4,771,105 sf of commercial property and 466 residential units under management, diversified across 4 asset classes in 3 provinces and 2 states. Completed and transferred 22,140 sf (2 buildings) in 2023 93,958 sf is currently under construction.	Improve existing assets with value-added investments to achieve higher occupancy rates and increase rent per square foot, provide high-quality service to tenants, and seek strategic acquisitions or disposition of assets. Plan, build and lease retail, office, industrial and multi-family residential real estate projects. Maintain 3-5 year inventory of developable assets. Maximize value of existing assets through vertical development or re-development.
Golf	4 championship golf courses.	Maintain strong reputation through consistent course quality and player experience. Grow revenue from food and beverage operations.

Diversification

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

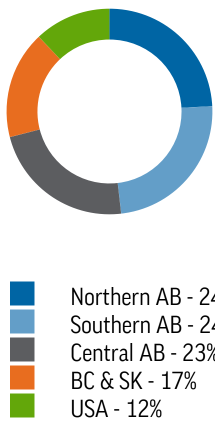
- The mix of land and property types held (residential, office, retail, industrial)
- The regional profile of our assets (Alberta, Saskatchewan, BC & western/southwestern US)
- The type of revenue each asset generates (including steady revenue from income-producing properties and revenue that fluctuates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

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

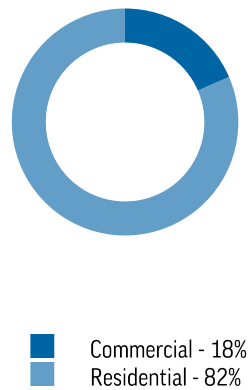
Melcor has been planning and developing innovative communities since the 1950s. We have developed over 40,000 lots in over 150 communities across Alberta, BC and the United States. We currently have 9,815 acres of land for future development (at Melcor's percentage).

LAND INVENTORY

Inventory by Region



Inventory by Land Use



Properties:

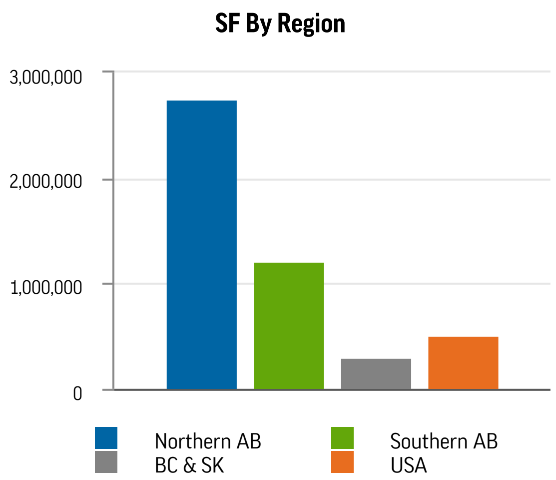
Commercial Development adds value to raw land by developing retail, office, industrial and multi-family residential properties in Alberta.

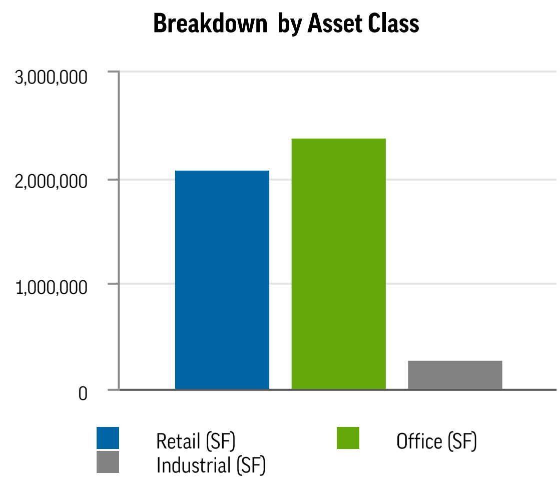
Within our Properties division, commercial development supports Melcor's strategic objectives of asset diversification, income growth and value creation by constructing income-producing developments, primarily on land acquired from the Land division. On completion, the properties are recognized at fair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

Melcor has been developing commercial properties since the 1970s and has built over 2.5 million sf.

Asset & Property Management oversees 4.77 million sf of geographically diverse income-producing assets (including those owned by the REIT) to provide consistent annuity income and cash flow. Our total portfolio under management is diversified across asset class, property mix and region. The regional asset mix is primarily commercial in western Canada, with the majority of these assets owned by the REIT. Our US portfolio is a blend of residential and commercial properties. The goal of the Properties division is to provide exceptional customer care to retain tenants for the long term. We continually enhance and improve existing properties through capital investment to maximize occupancy, rental rates and tenant retention and prepare properties for vend-in to the REIT.

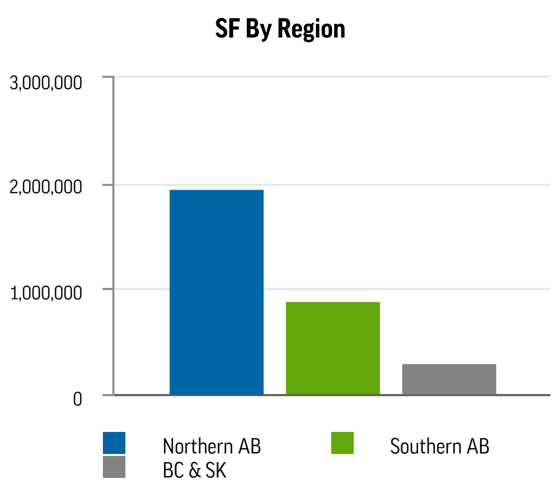
TOTAL GLA MANAGED

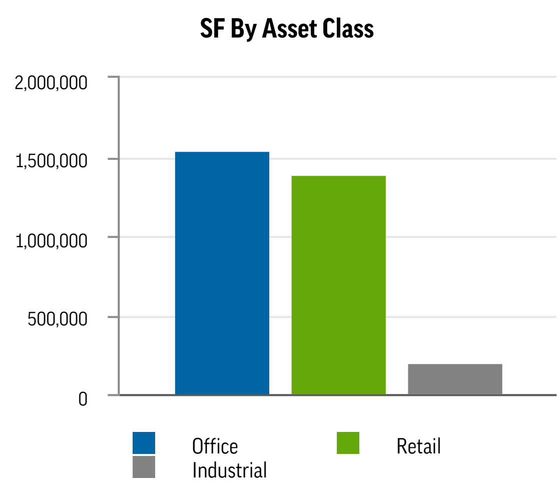




The REIT owns 3.15 million sf of income-producing assets that are managed by the Properties division. The REIT is a vehicle for realizing the value created throughout the Melcor value chain as raw land is developed for commercial use (Land) and commercial properties are built or redeveloped (Properties) and sold to the REIT. The REIT will continue to seek and execute acquisitions to grow its portfolio, both through the pipeline and third party acquisitions. To date, the REIT has acquired over 1.0 million sf from Melcor and 745,000 sf from third parties.

TOTAL GLA OWNED BY THE REIT





Key Performance Drivers

A High Performance Team

A strong and engaged workforce is a key component of achieving our growth objectives. Our team fuels our success by profitably managing residential and commercial development, continually moving future projects through the municipal approval process, managing our assets and ensuring tenant satisfaction, and developing strong relationships with our suppliers, contractors, builders, tenants and other stakeholders. The average tenure of our team is 9.54 years and we have 24 team members (10 active) on Melcor's Quarter Century Club.

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

Real Estate Inventory

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

- 9,815 acres of developable land
- 4,771,105 sf of leasable commercial property and 466 residential units under management in 3 provinces and 2 states
- Potential to develop over 4.5 million sf of new commercial property (based on current planned development)

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

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

Developed lot inventory

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

	December 31, 2023				December 31, 2022			
	CANADA			USA	CANADA			USA
(including joint arrangements at 100%)	Single-family (Lots)	Multi-family (Acres)	Non-residential (Acres)	Single-family (Lots)	Single-family (Lots)	Multi-family (Acres)	Non-residential (Acres)	Single-family (Lots)
Open	714	58.19	116.33	235	683	61.71	123.30	1
Transfers	–	(6.17)	–	–	–	(3.34)	(11.47)	–
New developments	1,041	6.27	20.23	–	1,091	12.89	7.36	234
Internal sales	–	–	(8.92)	–	–	–	–	–
Sales	(1,149)	(8.46)	(14.16)	(234)	(1,060)	(13.07)	(2.86)	–
Year end	606	49.83	113.48	1	714	58.19	116.33	235

Our Canadian markets saw steady demand in the year. Throughout the year we brought on 1,041 (2022 - 1,091) new single-family lots, and sold 1,149 (2022 -1,060) to our builders. Calgary saw a resurgence in the year with 590 (2022 - 404) new single-lots developed and 581 (2022 - 315) single-family lots sold. Edmonton had another strong year with 382 (2022 - 568) new single-family lots developed and 511 (2022 - 616) single-family lots sold.

Harmony (Denver, CO area) is our one community under active development in the US. In the year, amidst the market response to the interest rate increases our team was able to secure 234 single-family lot sales (2022 - $nil).

We remain committed to managing our risk in uncertain markets by ensuring that market demand is in place prior to proceeding with development. We are well positioned to respond to current market strength and have a strong development program in place for 2024.

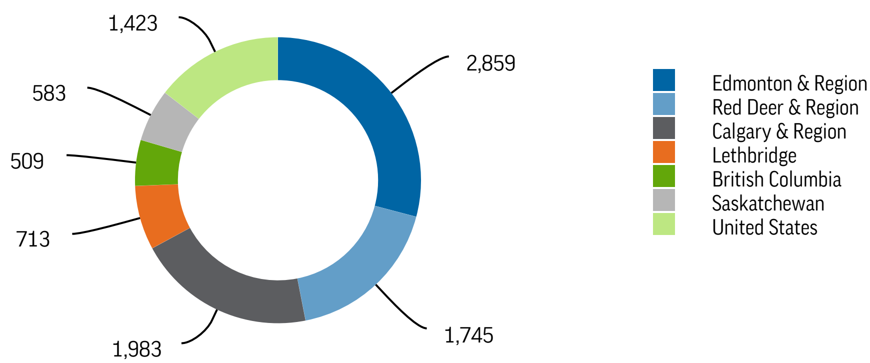
Raw land inventory

We acquire land in strategic growth corridors and maintain an inventory of land for future development in our primary markets. Raw land acquisitions are based on management's anticipation of market demand and development potential. The markets we operate in require significant infrastructure development and heavy capital investment, creating a barrier to entry. We continually investigate potential raw lands that complement our existing land holdings or provide attractive projects that are consistent with our overall strategy and management expertise. We acquire land when we find a good fit within these criteria.

Land purchases (in acres, net of joint arrangement interests)	**2023**	2022	Total Holdings
Edmonton & Region	120	–	2,859
Red Deer & Region	–	–	1,745
Calgary & Region	–	–	1,983
Lethbridge	–	–	713
British Columbia	–	–	509
Saskatchewan	–	–	583
United States	–	13	1,423
	120	13	9,815

In the year, we purchased 80 acres of raw land in Acheson, AB for $2.40 million, and 40 acres of raw land in Leduc AB for $2.40 million. These purchases were strategic in nature for future development. While we may participate in strategic land purchase opportunities such as this, our primary focus is on harvesting our current inventory of 9,815 acres, located in our operating regions as follows:

Inventory by Region



Financial Resources

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

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

We primarily use fixed rate, long-term mortgage financing on our income-producing assets to raise capital for acquisitions, development activities, and other business expenditures. As such, most of our borrowings are in the form of long-term, property specific financings such as mortgages or project financing secured by specific assets. At the end of 2023, Melcor had project specific financing on two residential and two commercial projects totaling $7.72 million. To mitigate the increase in interest rates seen in the market, Melcor used excess funds from the property dispositions in the year to pay-down its debt including the payout of the Kelowna Business Centre and Chauncey Property (US) mortgages.

Our operations are supported by a syndicated operating line of credit with total availability of $212.15 million, which margins our land development assets (raw land inventory, land under development and agreements receivable). Melcor continues to remain focussed on collecting receivables and reducing overall leverage which provides the opportunity to participate in acquisition and growth opportunities as they arise.

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

Corporate Sustainability

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

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

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

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

Environmental Commitment

Land

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

- low impact development techniques to reduce and absorb runoff (smaller driveways, more green space)
- unique naturalized storm water management ponds that mimic the natural environment. Now well-established in several communities, these ponds re-create a natural environment that attracts a variety of wildlife
- natural raw land features to inform the design of the community
- mature trees and native species in landscaping and require individual home purchasers to do the same to not only beautify the community, but to increase natural absorption of rain water and snow melt
- plentiful community gathering spaces - parks, playgrounds, community gardens and orchards

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

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

We are actively involved in the Urban Development Institute - Edmonton Metro (UDI). UDI as been advocating for environmental initiatives to improve servicing standards and land use efficiency aiming to minimize our environmental footprint. This, in turn, would contribute to enhancing housing affordability though the reduction of costs associated with infrastructure construction and maintenance.

Properties

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

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

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

Examples of our commitment to environmental best practices include:

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

We engage specialists to monitor and analyze our energy usage and identify potential improvements. Of 12 office properties benchmarked from 2012 - 2023 (Edmonton, AB) we achieved:

- a 18% reduction in electricity consumption or CO_2 equivalent of 10,400 tonnes
- a 22% reduction in natural gas consumption or CO_2 equivalent of 1,200 tonnes
- a 51% reduction in emission intensity or CO_2 equivalent of 14,200 tonnes, a decrease of almost 2,000 tonnes over 2022.

Golf

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

Social Responsibility

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

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

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

Diversity & Inclusion

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

Women make up 50% of Melcor's management committee, 38% of management and 47% of our overall team. Visible minorities make up 18% of our workforce.

Melcor emphasizes health and wellness, including mental health. In 2019, we doubled the benefit available for psychological services to support the mental well-being of staff. In 2021 and 2022, managers participated in The Working Mind, management training for recognizing and managing mental health challenges in the workplace. Encouraging managers to check in on the mental and emotional well-being of staff has been a priority.

The focus on a positive, empowering work environment creates an engaged and dedicated workforce with 24 employees having served the company for 25+ years. The average tenure of our employees is 9.54 years.

Community Investment: Supporting Local

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

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

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

Effective Governance

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

Melcor's Management Committee, which reviews and approves the projects we undertake, is 50% female.

Examples of our commitment to effective corporate governance practices include:

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

Glossary of Acronyms

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

2023 Highlights

Readers are reminded that established key performance measures may not have standardized meaning under GAAP. For further information on Melcor's non-standard measures, non-GAAP measures, operating measures and non-GAAP ratios, refer to the non-GAAP and non-standard measures section on page 37.

($000s except as noted)	2023	2022	Change
Revenue	315,239	241,747	30 %
Gross margin (%)[3]	45.2 %	48.9 %	(8)%
Fair value adjustment on investment properties	(24,456)	21,554	(213)%
Net income	62,980	89,354	(30)%
Net margin (%)[3]	20.0 %	37.0 %	(46)%
Funds from operations[1]	84,455	60,859	39 %
Shareholders' equity	1,209,578	1,178,336	3 %
Total assets	2,097,473	2,167,050	(3)%
Cash from operations	48,808	18,351	166 %
Per Share Data ($)			
Basic earnings	2.04	2.75	(26)%
Diluted earnings	2.03	2.74	(26)%
Funds from operations[2]	2.73	1.88	45 %
Book value[2]	39.45	37.71	5 %
Dividends	0.64	0.58	10 %

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 37 for further information.
(2) Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 37 for further information.
(3) Supplementary financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 37 for further information.

Consolidated revenue for 2023 was $315.24 million up 30% over 2022. Gross margin was down 8% compared to 2022 to 45%, due a larger contributions from our Land division, a lower gross margin division. Net income was down 30% to $62.98 million and FFO was up 39% to $84.46 million. Net income is impacted by non-cash fair value gains on investment properties which saw a swing of $46.01 million, REIT units and the conversion feature on our convertible debenture. Management believes that FFO is a more accurate representation of true operating performance.

Our Land division had an exceptional year, with revenues up 49% to $201.75 million and earnings up 61% to $74.59 million over 2022. The Alberta market saw a shift towards our Calgary market providing our largest portion of sales, contributing 42% of our total land revenue at $85.57 million and 581 single-family lot sales. Our US market also saw strong sales contributing $40.75 million to revenues (2022 - $0.98 million) and 234 single-family lot sales (2022 - nil).

Our Income Properties (Melcor Properties and REIT) accounted for 35% of total revenue, after intersegment eliminations compared with 44% in 2022. Properties revenue was consistent at $117.06 million with segment earnings down 62% as a direct result of the swing in fair value on investment properties.

Properties completed construction on 2 retail buildings contributing an additional 22,140 sf to our portfolio of income-generating properties.

Revenue in our Golf division was up 6% with revenue from green fees flat over 2022, and an increase in food and beverage revenues over 2022.

The US contributed 17% of total revenue or $54.26 million in the year, with $40.75 million related to our Land division, and $13.52 million from our Properties division. This compares to 2022 revenue of $15.83 million (7% of total revenue), with 100% from our Properties division.

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

Investing for growth

In the year, we purchased 80 acres of raw land in Acheson, AB for $2.40 million, and 40 acres of raw land in Leduc, AB for $2.40 million. These purchases were strategic in nature for future development. While we may participate in strategic land purchase opportunities such as this, our primary focus is on harvesting our current inventory of 9,815 acres.

Our Properties division completed 2 retail buildings (22,140 sf) in 2023 with a further 103,925 sf under development. These new buildings will positively impact results in future years as we continue to grow our income-generating assets for long-term holding or for sale to the REIT. We continued to progress commercial land through the development, approvals and lease-up process and have an additional 5 buildings in 4 projects expected to be completed and transferred to Properties in 2024 and 2025.

Asset Dispositions

- 10 residential units located at the Edge at Grayhawk located in Phoenix, AZ for net proceeds of $4.55 million (US$3.58 million)
- Kelowna Business Centre, a office building located in Kelowna, BC for gross proceeds of $19.50 million
- Stafford Common a retail building located in Lethbridge, AB for gross proceeds of $3.50 million

During the year, we reclassified three REIT-owned properties with a fair value of $33.77 million as held for sale. As at December 31, 2023 management has committed to a plan on the sale of the properties.

Return to Shareholders

We continued to return value to our shareholders and unitholders:

Melcor Developments:

- Dividends paid to shareholders increased to $0.64 per share in 2023, up from $0.58 per share in 2022.
- We repurchased 712,160 shares for cancellation pursuant to the NCIB at a cost of $8.10 million during 2023.
- On March 13, 2024 we declared a quarterly dividend of $0.11 per share, payable on March 29, 2024 to shareholders of record on March 22, 2024. The dividend is an eligible dividend for Canadian tax purposes.

Melcor REIT:

- Distributions to unitholders of the REIT was $0.48 per unit in both 2023, consistent with 2022.
- Subsequent to the year, the REIT declared distributions of $0.04 per unit for January 2024.
- On February 22, 2024 the REIT announced the suspension of its monthly distribution which is expected to enable the REIT to retain approximately $1.2 million of cash, monthly, improving the REIT's financial flexibility moving forward.

Strategic review

The Board of Trustees of REIT announced on February 22, 2024 the establishment of an Independent Committee to oversee a broad-based strategic review with a focus on unlocking unitholder value. The Independent Committee will retain a financial advisor to evaluate strategic alternatives to maximize unitholder value. This committee is comprised of the independent members of the Board of Trustees of the REIT, and is chaired by Richard Kirby.

There can be no assurances that the strategic review will result in the REIT pursuing any transaction or that any alternative transaction will be available to the REIT. Furthermore, the Independent Committee has not set a timeline on the completion of this process and we do not intend to comment further on the review until we determine that additional disclosures are appropriate or required.

Revenue & Margins

Revenue was up 30% to $315.24 million in 2023, compared to $241.75 million in 2022.

This increase in revenue can be attributed to revenue from our Land division which was up 49% over 2022 to $201.75 million. Within our Land division, revenue in our Calgary and US regions saw the most significant increase over 2022. Revenue from our Calgary region in 2023 was up 73% to $85.57 million (2022 - $49.41 million) and revenue from our US region was $40.75 million, up $39.77 million over 2022 (2022 - $0.98 million). The Edmonton region continues to consistently produce strong results, and brought in revenue of $62.67 million, up 6% from 2022 (2022 - $59.24 million).

Our average lot price on single-family lots in Canada increased 10%, from $0.15 million per lot in 2022 to $0.17 million per lot in 2023. Average selling price can vary significantly period over period depending on the type of inventory sold. Melcor strives to provide diversified lot options to our builders, which range from lakefront estate lots to townhouse/duplex products.

Revenue from our Income Properties was steady at $117.06 million (2022 - $117.50 million). Our Properties revenue decreased by 1% due the recent disposal of properties including the Dakotas at Camelback and Stafford Common in the trailing 24 months. Our REIT properties continue to provide stable returns, and revenue remained flat over 2022 despite the sale of the Kelowna Business Centre in Q1-2023.

Gross margin was 45% in 2023 compared to 49% in 2022. Net margin decreased to 20% from 37% in 2022.

Gross margin earned in our Land division remained steady at 39%. Gross profit contributed by the Land division however was up 51% to $79.46 million (2022 - $52.72 million) as a result of increased sales in the Calgary and US region. Land contributed to 62% of total revenue before eliminating entries in the year up from 52% in 2022. The increase in contributed revenues and gross margins impacts our consolidated margins and was the largest factor in the overall decrease in consolidated gross margin in 2023 compared to 2022.

Our Income Properties, consistently provide higher gross margins than our other operating divisions. In 2023 and 2022 margin in these divisions were 58% and 59% respectively. In 2023, 35% of total revenue was from these divisions, down from 44% in 2022.

Net margin is impacted by swings in fair value adjustments recorded on our investment properties, REIT units and fair value adjustments on derivative financial instruments. Net income was $62.98 million, down from $89.35 million in 2022, largely as a result of fair value losses of $24.46 million recorded on our Properties in 2023, a swing of $46.01 million over 2022. Adjustments related to REIT units had a positive impact of $11.87 million in 2023 up $1.73 million over 2022. 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.

Gross margin and net margin are supplementary financial measures of performance. Please refer to the Non-GAAP and Non-Standard Measures section on page 37 for more information.

Funds From Operations (FFO)

Funds From Operations (FFO) is a non-GAAP measure used in the real estate industry to measure operating performance. Refer to the Non-GAAP Measures section starting on page 37. 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 Properties and REIT units.

Below is a reconciliation of net income to FFO:

($000s)	Year Ended	
	December 31, 2023	December 31, 2022
Net income for the year	**62,980**	89,354
Amortization of tenant incentives	**8,416**	7,561
Fair value adjustment on investment properties	**24,456**	(21,554)
Depreciation of property and equipment	**1,260**	1,350
Stock based compensation expense	**1,057**	841
Non-cash financing costs (recoveries)	**4,766**	(8,518)
Gain on sale of assets	**(51)**	(40)
Deferred income taxes	**(336)**	8,225
Fair value adjustment on REIT units	**(18,093)**	(16,360)
FFO(1)	**84,455**	60,859
Per Share Data		
FFO per share(2)	**2.73**	1.88

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 37 for further information.
(2) Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 37 for further information.

FFO increased $23.60 million or 39% to $84.46 million from $60.86 million in 2022. This increase was primarily due to overall increased gross profit, which was up $24.09 million or 20% in 2023. FFO was also positively impacted by interest income, which was $3.21 million in 2023, up from $1.61 million in 2022. Interest income is earned on both deposits held in the bank as well as Agreements Receivable balances due from builders. These rates are variable in nature and increased alongside prime, which went up in 2023.

These increases were partially offset by higher interest expense, which went up as a direct result of rising interest rates in the year. Interest paid, which excludes non-cash items such as revaluations on our interest rate swaps and the conversion feature on our convertible debentures, was up $4.26 million compared to 2022 .

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

Divisional Results

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

1. **Land**, which acquires raw land for future commercial and residential community development;
2. **Properties**, which manages the construction of high-quality income properties, oversees the leasing of both commercial properties completed internally and those externally purchased maintaining a diverse portfolio of assets, including those held by REIT;
3. **REIT**, which owned and holds 38 income-producing properties; and
4. **Golf**, which owns and operates championship golf courses associated with Melcor residential communities.
5. **Corporate**, which carries out support functions including accounting, treasury, information technology, marketing, administration, legal and human resources.

The following table summarizes operating division results before intersegment eliminations and excludes the corporate division. Given the significant impact the consolidation of the REIT has on Melcor's consolidated statement of financial position, the assets and liabilities of the REIT have been presented separately from the rest of consolidated entity in note 25.

	Land		Properties		REIT		Golf	
	Year ended December 31		Year ended December 31		Year ended December 31		Year ended December 31	
($000s except as noted)	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Revenue	**201,753**	135,777	**43,163**	43,390	**73,900**	74,105	**11,088**	10,453
Portion of total revenue[1]	**62%**	52%	**13%**	16%	**22%**	28%	**3%**	4%
Cost of sales	**(122,295)**	(83,054)	**(18,257)**	(17,445)	**(31,249)**	(31,060)	**(6,566)**	(6,126)
Gross profit	**79,458**	52,723	**24,906**	25,945	**42,651**	43,045	**4,522**	4,327
Gross margin (%) [1]	**39%**	39%	**58%**	60%	**58%**	58%	**41%**	41%
Portion of total gross profit[1]	**52%**	42%	**16%**	21%	**28%**	34%	**3%**	3%
General and administrative expense	**(7,721)**	(7,848)	**(5,051)**	(5,233)	**(3,112)**	(3,358)	**(2,717)**	(2,716)
Fair value adjustment on investment properties	**–**	–	**(13,784)**	28,805	**(16,794)**	(11,995)	**–**	–
Gain on sale of assets	**–**	–	**–**	–	**–**	–	**51**	40
Interest income	**2,856**	1,406	**117**	35	**62**	31	**10**	6
Segment Earnings	**74,593**	46,281	**6,188**	49,552	**22,807**	27,723	**1,866**	1,657

(1) Supplementary financial measure. Refer to Non-GAAP and Non-Standard Measures section on page 37 for further details.

Land

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

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

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

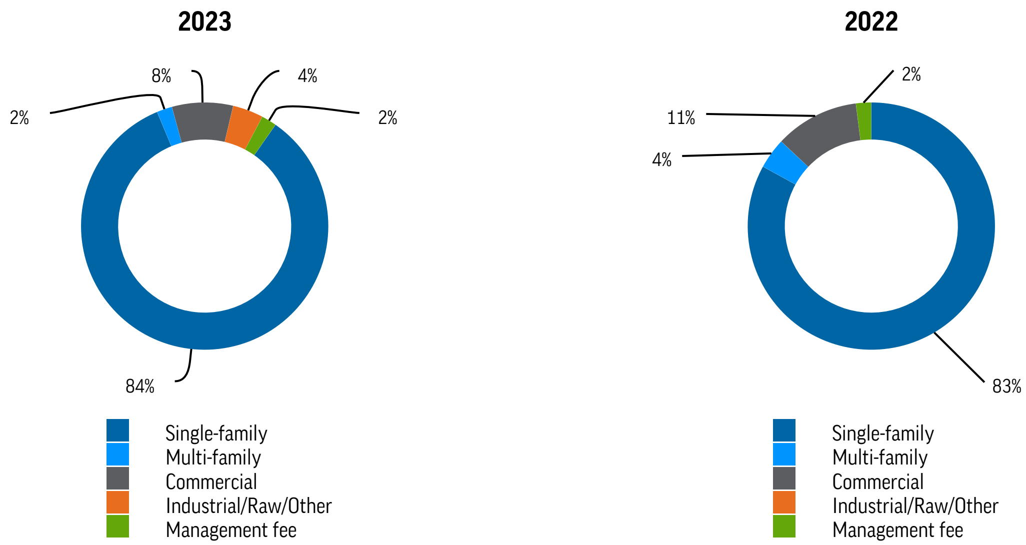
As at December 31, 2023 we held 9,815 acres of land for future development and developed inventory of 606 single-family lots in Canada, 1 single-family lot in the US, 50 acres ready for multi-family development, and 113 acres for commercial and industrial development.

Sales Activity

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

We brought on 17 new phases in 10 communities including 2 new communities launched to replenish inventory in 2023. We also continued to clear out existing inventory held by Melcor (lots) and by our builders (spec homes) and have active marketing programs in place to support this objective.

REVENUE BY TYPE



The following table summarizes our activity:

Consolidated	2023	2022
Canada Sales data: (including joint operations at 100%)		
Single-family sales (number of lots)	**1,149**	1,060
Gross average revenue per single family lot ($)	**169,799**	153,934
Multi-family sales (acres)	**8.46**	13.07
Gross average revenue per multi-family acre ($)	**1,052,896**	802,357
Commercial sales (acres)	**12.98**	13.38
Gross average revenue per commercial land acre ($)	**1,578,053**	1,093,848
Other land sales - Industrial, Other (acres)	**10.10**	0.95
Gross average revenue per other land acre ($)	**490,719**	452,632
Raw land sales to municipalities (acres)	**4.52**	1.49
Gross average revenue per raw land acre ($)	**763,200**	107,113
US Sales data: (including joint operations at 100%)		
Single-family sales (number of lots)	**234**	–
Gross average revenue per single family lot ($)	**170,663**	–
Financial results: (including joint operations at Melcor's interest)		
Revenue ($000s)	**201,753**	135,777
Earnings ($000s)	**74,593**	46,281

Regional Highlights

Edmonton & Region	2023	2022
Sales data:		
Single-family sales (number of lots)	**511**	616
Multi-family sales (acres)	**6.30**	7.77
Commercial sales (acres)	**8.92**	–
Other land sales - Industrial & Other (acres)	**6.95**	0.95
Raw land sales to municipalities (acres)	**4.52**	0.64
Financial results:		
Revenue ($000s)	**62,671**	59,239
Earnings ($000s)	**26,277**	21,247

Our Edmonton region had a strong year with sales of 511 lots and 26.69 acres of land sold. In total, Edmonton saw a increase of 6% in revenues and 24% in earnings. The Edmonton region brought on 9 new phases in 4 communities in 2023.

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

Red Deer & Region	2023	2022
Sales data:		
Single-family (number of lots)	**32**	63
Commercial sales (acres)	**–**	1.91
Financial results:		
Revenue ($000s)	**2,826**	6,096
Earnings ($000s)	**239**	2,298

Given that Red Deer is a smaller market, lot sales can fluctuate year to year depending on the level of development activity. In the current year, single-family home sales declined 49% to 32 single-family lots sold, and revenues decreased 54% to $2.83 million. Despite a reduction in sales, Melcor is still confident with the results in the Red Deer region, and continues to monitor market demands.

Calgary & Region	2023	2022
Sales data:		
Single-family sales (number of lots)	**581**	315
Multi-family sales (acres)	**2.16**	–
Commercial sales (acres)	**4.06**	11.47
Other land sales - Industrial & Other (acres)	**3.15**	–
Raw land sales to municipalities (acres)	**–**	0.35
Financial results:		
Revenue ($000s)	**85,567**	49,409
Earnings ($000s)	**26,490**	15,109

Calgary had an exceptional year with revenues increasing 73% to $85.57 million over 2022 and single-family lot sales increasing 84% to 581. We launched two new communities on our Calgary region in the year. Sora, located in Calgary, AB and Goldwyn, located in Balzac, AB. Combined these new communities contributed to over 40% of total sales (at JV%) in the region. Our average selling price per single-family lot increased 31% over 2022, due to the product mix sold which also contributed to the increase in overall revenues in the year.

Calgary developed on 590 new single-family lots, and registered 6 new phases across 6 communities in 2023. We anticipate continued activity throughout 2024 with our new communities of Sora (Calgary, AB) and Goldwyn (Balzac, AB) ramping up, as well as continued development of new phases within our Cobblestone Creek (Airdrie, AB), Sunset Ridge (Cochrane, AB) and Lanark Landing (Airdrie, AB) being brought on.

Lethbridge	2023	2022
Sales data:		
Single-family sales (number of lots)	**6**	34
Multi-family sales (acres)	**–**	5.30
Financial results:		
Revenue ($000s)	**859**	6,138
Earnings ($000s)	**311**	2,070

Single-family lot sales saw a decline to 6 from 34 in 2022. Lethbridge is one of our smaller markets and therefore lot sales can fluctuate significantly from period to period depending on the stage of development in various communities. Management continues to monitor market demand and currently holding 55 single-family lots in inventory.

Kelowna	2023	2022
Sales data:		
Single-family sales (number of lots)	**19**	32
Financial results:		
Revenue ($000s)	**9,085**	13,898
Earnings (loss) ($000s)	**2,493**	4,244

In 2023 we replenished our inventory developing 19 new single-family lots, and sold 19 single-family lots in the year. We also registered 2 new phases in Blue Sky Estates development, located adjacent to our Black Mountain golf course.

Due to the smaller market in our Kelowna region, our lot sales can fluctuate significantly period over period depending on the stage of development. With anticipation of continued market demand, we are planning on the development of additional phases within our Black Mountain community.

United States	2023	2022
Sales data:		
Single-family sales (number of lots)	**234**	–
Financial results:		
Revenue ($000s)	**40,745**	977
Earnings ($000s)	**18,783**	1,319

In the current year, we sold 234 single-family lots within our Harmony community (Denver, CO), with no sales in 2022.

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

We continue to actively market and work on municipal approvals for all of our land assets in the US. We intend to sell many of these projects as paper lots, which means we do not plan to develop ourselves.

Melcor Properties

Our Properties division includes the management and leasing of our existing income properties along with the development of new income properties supporting our strategic objective of asset diversification, income growth and and value creation.

Property Development

Our development component of our Properties division develops and manages construction while working in unison with our leasing team creating value on land primarily purchased from our Land division. Properties recognizes fair value gains as development and leasing activities progress. Completed buildings are recognized at fair market value (based on third party appraisals) once construction and leasing activities are nearing completion.

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.

Owns & operates

Our Properties division also manages a portfolio of high-quality office, retail, industrial and residential properties, which are located across western Canada and the US, including the properties owned by the REIT. Currently our Properties division manages 4.77 million sf of income-producing commercial GLA and 466 residential units.

Our commercial property portfolio is primarily comprised of properties developed and transferred internally along with properties acquired from third parties elsewhere. Properties developed are available for the REIT to purchase under its Right of First Offer (ROFO) option. In our management capacity, we are committed to efficient property management for optimized operating costs, occupancy and rental rates, providing the REIT and our joint venture partners with best in class management services. We focus on client retention through continuous customer contact and ongoing service evaluations. We also enhance our portfolio by upgrading the appearance, functionality and desirability of our properties, thereby increasing their rental potential.

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

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

Operating Results

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

($000s except as noted)	2023	2022
Commercial properties GLA under management (sf, total)	**4,771,105**	4,804,248
Properties owned and managed (sf)	**1,169,055**	1,135,418
Properties managed (sf)	**3,602,050**	3,668,830
Residential units managed	**466**	476
Occupancy - CAD	**84.1 %**	89.3 %
Occupancy - US	**80.5 %**	82.6 %
WABR (per sf) - CAD	**$ 28.84**	$ 27.02
WABR (per sf) - US	**$ 22.16**	$ 20.32
Fair value recognized on investment properties ($000s)	**(18,768)**	25,663
Commercial properties under development (sf, total)		
Number of properties completed	**2**	5
Properties completed (sf)	**22,140**	36,846
Number of properties under active construction	**5**	2
Properties under active construction (sf)	**103,925**	61,850
Fair value recognized on properties under development ($000s)	**4,984**	3,142

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

($000s except as noted)	2023	2022
Revenue (total)	**43,163**	43,390
Canadian properties	**22,856**	21,986
US properties	**13,517**	14,848
Management fees	**5,768**	5,797
Parking lots and other assets	**1,022**	759
NOI (1)	**26,934**	25,328
FFO (1)	**22,452**	22,367
FFO per share (2)	**$ 0.68**	$ 0.67

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 37 for further information.
(2) Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 37 for further information.

The Properties division's has provided the asset & property management function for the REIT since its formation in 2013.

Canadian properties

In 2023 we merged our "Investment Properties" and "Property Development" divisions into our Properties division. The coming together of these two divisions is intended to create synergies in business processes related to development, leasing and property management. Included in both the current period, and comparative figures are the consolidated "Investment Properties" and "Property Development".

Our Canadian property portfolio continues to grow via completions from our internal development. In 2023, we completed construction and lease-up of 2 buildings (22,140 sf) compared to five buildings (36,846 sf) in 2022. In addition to the properties completed, we have 5 buildings totaling 103,925 sf in active development.

New properties completed in the current and comparative periods added $3.97 million to NOI in 2023 (2022 - $2.46 million) as detailed in same asset NOI table below. With 103,925 sf of GLA under active development, we expect our Canadian property portfolio to continue to grow.

Occupancy of our Canadian properties owned by Melcor Properties was down to 84% at December 31, 2023 (2022 - 89%). Committed occupancy is 89% (2022 - 90%). Weighted average base rent was up $1.82 per sf to $28.84 per sf.

Fair value gains on properties under active development are recognized throughout the active development process until the property is recognized at fair market value. From development we generated $4.98 million in fair value gains comparative to $3.14 million recognized in fair value gains from construction activity in 2022.

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

($000s)	2023	2022
Northern Alberta	**2,638**	1,767
Southern Alberta	**2,346**	1,375
	4,984	3,142

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

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

($000s except as noted)	2023	2022
Same asset NOI (1)	**11,705**	11,326
Disposals	**47**	29
Properties recently completed construction	**3,974**	2,456
NOI(1)	**15,726**	13,811
Amortization of operating lease incentives	**(1,263)**	(691)
Straight-line rent adjustment	**497**	1,962
Gross profit	**14,960**	15,082

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 37 for further information.

Gross profit was $14.96 million, down 1% from 2022 as a result of higher operating costs in the period, and the disposal of assets in the current year.

Same asset NOI was up 3% to $11.71 million due higher WABR on assets held throughout the current and comparative periods, offset by slightly lower occupancy.

US properties

In 2022, the sale of a large block of our residential units had a significant impact on our US properties results comparative to the 2023 results.

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

In 2023, we sold 10 residential units for net proceeds of $4.55 million (US$3.36 million). These dispositions are adjusted for in the same asset NOI calculations below.

Our dispositions noted above significantly impacted results on our US properties. Revenue on US properties was down 9% to $13.52 million compared to $14.85 million in 2022 and NOI was down 14% to $4.13 million compared to $4.79 million in 2022. On a same asset basis, NOI was down 1% or $0.04 million at $4.14 million as a direct result of the reduction in occupancy over 2022.

As at December 31, 2023 occupancy was 81% down 2% from 2022 and WABR was $22.16 per sf up 9% from 2022. Residential occupancy was 87% at year end (2022 - 88%).

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

($000s except as noted)	2023	2022
Same asset NOI (1)	**4,143**	4,187
Third party disposals	**(13)**	606
NOI (1)	**4,130**	4,793
Foreign currency translation	**1,444**	1,415
Amortization of operating lease incentives	**(1,216)**	(925)
Straight-line rent adjustment	**(44)**	274
Gross profit	**4,314**	5,557

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 37 for further information.

Management fees & other

Management fees on development 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 the active projects. Management fees earned on development during 2023 were $0.23 million (2022 - $0.38 million).

Management fees earned under the asset management and property management agreements with the REIT and under other joint venture agreements where Melcor acts as the asset manager. The leasing fee agreement between Melcor and Melcor REIT was amended effective January 1, 2022, which reduced lease fees paid from the REIT to Melcor. These amounts are eliminated on consolidation. Management fees earned on asset and property management during 2023 were $5.54 million (2022 - $5.42 million)

Revenue from parking stalls and other assets was up 35% to $1.02 million as a result of the re-population of downtown offices post-pandemic. These revenues are ancillary to our business and tend to fluctuate from period to period.

FFO

FFO was consistent with the prior period as our Properties portfolio continues to grow as properties under development are completed and transferred. The Properties division remain a steady source of FFO and serve to produce consistent and stable results for Melcor.

Fair Value of Investment Portfolio

The fair value of our portfolio increased by $1.92 million over 2022. The components leading to the change in fair value include:

- the sale of Stafford Common for $3.27 million, reducing fair value.
- the sale of 10 residential units at Edge at Grayhawk for $4.55 million (US$3.36 million), reducing fair value.
- transfers of land for development of $3.10 million, increasing fair value.
- property development $16.10 million, increasing fair value
- fair value loss of $7.66 million comprised of $13.78 million loss from specific properties and $6.12 million gain from the intersegment fair value adjustments, reducing fair value
- foreign currency translation loss of $2.40 million, and changes to tenant improvements and straight line rent.

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

($000s)	2023			2022		
	Investment Properties	**Properties Under Development**	**Total**	Investment Properties	Properties Under Development	Total
Alberta - all assets	**(5,020)**	**4,984**	**(36)**	(6,491)	3,142	(3,349)
US - residential	**916**	**–**	**916**	34,207	–	34,207
US - commercial	**(14,664)**	**–**	**(14,664)**	(2,053)	–	(2,053)
	(18,768)	**4,984**	**(13,784)**	25,663	3,142	28,805

Investment properties were valued by Melcor's internal valuation team as at December 31, 2023. Our qualified external valuation professionals valued 18 of the 27 legal phases with a fair value of $132.24 million This resulted in fair value loss of $18.77 million recorded as fair value adjustments on investment properties in the statements of income and comprehensive income. In 2022 our qualified external valuation professionals valued 20 of the 28 legal phases with a fair value of $228.12 million which resulted in a fair value gain of $25.66 million for the year.

Our US residential properties saw significant changes in value in the year. These losses are primarily due to an increase in capitalization rates on office properties in our Arizona and Colorado region. The increase in capitalization rate is a correlated to increased interest rates and higher market risk across the industry. Losses on our Alberta assets are also attributed to an increase in capitalization rates on several properties correlated to increased interest rates and market risk. Refer to note 29 to the consolidated financial statements for additional information on the calculation of fair value adjustments.

REIT

The REIT owned 38 income-producing office, retail and industrial properties, representing 3,150,646 sf in GLA and a land lease community at December 31, 2023. The REIT's portfolio has a diversified tenant profile, with a mix of national, regional and local tenants operating in a variety of industries.

We held a controlling 55.4% effective interest in the REIT through ownership of all Class B LP Units at December 31, 2023 (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 25 to the Financial Statements provides a breakout of the assets and liabilities of the REIT as supplemental information to assist readers in understanding Melcor's financial position.

Operating results

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

($000s except as noted)	2023	2022
Rental revenue	**73,900**	74,105
Net operating income (NOI) (1)	**46,635**	46,319
Same asset NOI *(see calculation following)* (1)	**44,049**	43,178
Fair value adjustments	**(16,794)**	(11,995)
Occupancy	**88 %**	88 %
Funds from operations (1)	**43,576**	43,443
Funds from operations per unit (2)	**$ 1.42**	$ 1.39

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 37 for further information.
(2) Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 37 for further information.

Rental revenue was flat over 2022. Higher revenue from base rent and recoveries was offset by a swing in straight-line rent adjustments and amortization of tenant incentives and other revenues over 2022.

In 2023 we completed 541,010 sf of lease renewals (including holdovers) and had 108,581 sf in new leases commence for a steady occupancy of 87.6% (2022 - 88.1%). We continue to see activity and opportunity across our portfolio in all asset classes continues and held a healthy retention rate of 87.9% (2022 - 86.1%) on our portfolio of assets.

Recoveries are amounts recovered from tenants for direct operating expenses incurred and include a nominal administrative charge. We typically expect recovery revenue to correlate with changes in recoverable operating expenses. Compared to 2022, both recovery revenue and direct operating expenses increased 2% and 1% respectively. Our recovery ratio (recoveries divided by direct operating expenses) increased slightly to 87% (2022 - 86%).

Other revenue includes parking revenue and 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. Straight-line rent (SLR) adjustments relate to new leases which have escalating rent rates and/or rent-free periods. SLR fluctuates due to the timing of signed leases and the rent-steps under individual leases.

Direct operating expenses were up 1% over 2022 due to inflationary pressures which includes utility and property taxes as well as building operating costs.

Utilities and property taxes were down 1% over 2022. Utility costs, including heating and air conditioning costs, fluctuate depending on weather conditions in the regions where our assets are located as well as prevailing utility rates, which are generally higher in Alberta where the majority of our properties are located. Operating expenses saw an increase of 3% over 2022. Operating expenses vary period by period depending on the timing of maintenance projects undertaken.

Inflationary pressures impacted operating expenses in 2023, and we expect to see these increases continue throughout 2024.

($000s except as noted)	2023	2022
Same asset NOI (1)	**44,049**	43,178
Disposals / Asset Held for Sale	**2,586**	3,141
NOI before adjustments	**46,635**	46,319
Amortization of operating lease incentives	**(3,975)**	(3,725)
Straight-line rent adjustment	**(9)**	451
Net rental income	**42,651**	43,045

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 37 for further information.

NOI and same-asset NOI are non-GAAP financial measures used in the real estate industry to measure the performance of investment properties. The IFRS Accounting Standards measure most directly comparable to NOI and same-asset NOI is net income. Refer to the Non-GAAP Measures section starting on page 29 of this MD&A for more information.

NOI and same-asset NOI were up 1% in the quarter and 2% year-to-date over 2022.

Same-asset NOI in the current and comparative periods exclude Kelowna Business Centre an asset sold as of February 1, 2023 and three properties classified as held for sale as December 31, 2023.

Funds from Operations

Funds From Operations (FFO) is a non-GAAP financial measures used in the real estate industry to measure the operating performance of Melcor Properties. Refer to the Non-GAAP and Non-Standard Measures section on page 37 for further information. FFO within this division was flat over 2022.

Fair Value of REIT Portfolio

	2023	2022
Number of properties	**38**	39
Total GLA (sf)	**3,346,240**	3,346,240
GLA (REIT owned %) (sf)	**3,150,646**	3,216,141
Fair value of portfolio ($000s) (1)	**691,782**	719,682
Weighted average capitalization rate	**7.24 %**	7.08 %
Weighted average terminal cap rate	**7.31 %**	7.16 %
Weighted average discount rate	**8.19 %**	8.04 %

(1) Supplementary financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 37 for further information.

Investment properties were valued by Melcor's internal valuation team with the assistance of qualified independent external valuation professionals. In 2023, external valuation professionals valued 18 investment properties (of 52 legal phases) with fair value of $256.85 million (including amounts presented as tenant incentives and straight-line rent adjustments), resulting in a fair value loss of $16.79 million.

In 2022, external valuation professionals valued 44 investment properties (of 53 legal phases) with fair value of $578.35 million (including amounts presented as tenant incentives and straight-line rent adjustments), resulted in fair value loss of $12.00 million. Please refer to note 29 to the consolidated statements for additional information on the calculation of fair value adjustments.

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

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

($000s)	2023	2022
Northern Alberta	**(10,842)**	(8,940)
Southern Alberta	**(4,476)**	(7,362)
Saskatchewan & British Columbia	**(1,476)**	4,307
	(16,794)	(11,995)

Our valuation program requires the revaluation of each legal phase every two years or as market conditions dictate. In 2022 we had a disproportionate amount of scheduled appraisals in they year.

Fair value adjustments represent a change of approximately 2.6% (2022 - 1.7%) in the fair value of our portfolio. In 2023, the market saw a significant increase to interest rates, causing an increase in the cost of borrowing and overall risk of investing. With an increase cost of borrowing and risk reflected by an increase in capitalization rates property values were negatively impacted. We saw the largest impact on our office properties, consistent with current market conditions.

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

Golf

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

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

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

Operating Results

($000s except as noted)	2023	2022
Revenue	**11,088**	10,453
Gross profit	**4,522**	4,327
Gross margin (%) (1)	**40.8 %**	41.4 %
Earnings	**1,866**	1,657

(1) Supplementary financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 37 for further information.

All of our golf courses were open mid-April, with the exception of our Black Mountain golf course in Kelowna, which was able to get an early start opening April 4th. We had a strong year with number of rounds played during the year staying flat at 123,187. Food and beverage revenues increased 9% over 2022, which attributed to the total revenues increase of 6% to $11.09 million over 2022. Gross margin remained stable at 41%.

Melcor operated golf courses in Alberta closed on October 21, 2023 and Kelowna closed on October 27, 2023.

		2023		
	Ownership interest	Season opened	Season closed	Rounds of golf (1)
Managed by Melcor:				
Lewis Estates (Edmonton)	**60%**	**April 19**	**October 21**	**31,988**
The Links (Spruce Grove)	**100%**	**April 20**	**October 21**	**30,628**
Black Mountain (Kelowna)	**100%**	**April 4**	**October 27**	**36,020**
Managed by a Third Party:				
Jagare Ridge (Edmonton)	**50%**	**April 25**	**October15**	**24,551**
		2022		
	Ownership interest	Season opened	Season closed	Rounds of golf (1)
Managed by Melcor:				
Lewis Estates (Edmonton)	60%	April 22	October 28	31,138
The Links (Spruce Grove)	100%	April 22	October 28	29,894
Black Mountain (Kelowna)	100%	March 30	October 31	38,496
Managed by a Third Party:				
Jagare Ridge (Edmonton)	50%	April 30	October 16	23,914

(1) *Rounds of golf indicated at 100%.*

General and Administrative Expense

General and administrative (G&A) expense was consistent with 2022. As a percent of revenue, G&A at was at 7.3% of revenue compared to 9.5% in 2022. Management continues to prudently monitor and manage controllable expenses.

Income Tax Expense

The statutory tax rate for the year ended December 31, 2023 is 23% (2022 - 23%). The most significant adjustment impacting the 2023 effective tax rate was the fair value gain on REIT units, which is not subject to tax. Other items that impacted the effective tax rate include permanent differences related to revaluation adjustments on investment properties, distributions to REIT unitholders and the non-taxable portion of REIT income (after removal of fair value gain on Class B units).

Financing

As at December 31, 2023, our total general debt outstanding was $670.17 million compared to $740.37 million in 2022. The financing function is managed by our corporate division and decisions on how to deploy operating and acquisition funds are a centrally managed corporate decision. We use various forms of financing to fund our development and acquisition activities. We are often able to leverage the assets in one division to fund development opportunities in others.

A summary of our debt is as follows:

As at ($000s)		2023	2022
Melcor - revolving credit facilities	a	**71,976**	96,839
REIT - revolving credit facility	b	**37,860**	31,634
Project specific financing	c	**7,724**	22,597
Secured vendor take back debt on land inventory	d	**–**	5,717
Debt on investment properties and golf course assets	e	**507,463**	539,110
REIT - convertible debentures	f	**45,151**	44,468
		670,174	740,365

a) Melcor - revolving credit facilities

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

Under the terms of the facilities, Melcor pledges specific agreements receivable, specific lot inventory, undeveloped land inventory and a general security agreement as collateral. The facilities mature on July 31, 2025, renewable one year in advance of expiry.

A summary of the credit facilities is as follows:

As at ($000s)		2023	2022
Credit limit approved	i)	**212,150**	196,350
Supportable credit limit	ii)	**206,885**	176,264
Credit used		**(71,976)**	(96,839)
Credit available		**134,909**	79,425

i. The portion of these loan limits that relate solely to Melcor Developments Ltd. is $120.00 million (2022 - $120.00 million) with the remaining balance pertaining to specific joint arrangements.

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

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

As at ($000s)	2023	2022
Total letter of credit facility	**75,139**	77,147
Letters of credit issued	**(33,374)**	(31,732)
Available for issue	**41,765**	45,415

b) REIT - revolving credit facility

The REIT has an available credit limit based on the carrying values of specific investment properties up to a maximum of $50.00 million for general purposes, including a $5.00 million swingline sub-facility. An additional $15.00 million is available by way of an accordion feature, subject to lender approval. Depending on the form under which the facility is accessed, rates of interest will vary between prime plus 1.25% or bankers' acceptance plus 2.25% stamping fee. The agreement also provides the REIT with $5.00 million in available letters of credit which bear interest at 2.25%. The facility matures June 1, 2024.

As at December 31, 2023, we have an approved credit facility of $41.32 million (December 31, 2022 - $34.10 million). As at December 31, 2023 we had $37.86 million (December 31, 2022 - $31.63 million) drawn from the facility (net of unamortized transaction fees and unamortized discount on bankers acceptance); and posted no letters of credit (December 31, 2022 - $nil).

c) Project specific financing

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

The composition of our project specific financing is as follows:

As at ($000s)	2023	2022
Project specific debt on investment properties under development, with 7.70% interest rate (2022 - 6.95%)	**7,724**	9,363
Project specific debt on land, with nil% interest rates (2022 - 7.83% to 8.42%)	**—**	13,234
	7,724	22,597
Weighted average effective interest rate	**7.70 %**	7.72 %

Project specific debt is due on demand.

d) Secured vendor take back debt on land inventory

This debt was primarily comprised of loans on the acquisition of land that were held by the land vendor and had fixed or variable rates of financing. The debt was repaid in 2023.

As at ($000s)	2023	2022
Agreements payable with interest at the following contractual rates:		
Fixed rate of nil% (2022- 4.00% - 4.25%)	**—**	5,717
Weighted average effective interest rate	**— %**	4.13 %

e) Debt on investment properties and golf course assets

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

Debt on investment properties and golf course assets in the amount of $507.46 million, excluding fair value adjustments and deferred finance fees, reflects financing placed on investment properties that have a carrying value of $881.16 million.

Rates are negotiated at a pre-agreed benchmark bond rate plus a spread and are negotiated with different lenders to ensure competitive terms and multiple sources. New mortgage rates from Canadian lending institutions ranged from 4.62% to 8.80% in 2023.

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

As at ($000s)	2023	2022
Canadian mortgage at floating interest rate	**–**	5,876
Canadian mortgages at fixed rates	**331,933**	366,176
Canadian mortgages at variable rates	**132,247**	116,840
US mortgages at fixed rates	**44,828**	47,114
US mortgages at variable rates	**–**	6,005
	509,008	542,011
Fair value adjustment on interest rate swaps	**1,130**	–
Unamortized deferred financing fees	**(2,675)**	(2,901)
	507,463	539,110
Interest rate ranges	**(2.62% - 8.80%)**	(2.62% - 5.90%)
Weighted average effective interest rate	**4.11 %**	3.75 %

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

Year	Loan renewal amount ($000s)	Weighted average interest rate	Number of loans
2024	47,526	4.15%	8
2025	92,762	5.77%	11
2026	76,705	3.13%	11
2027	25,680	5.31%	3
2028	66,487	4.12%	8
2029	69,181	3.36%	6
2030	34,957	2.82%	4
2031	35,274	2.83%	4
2032	55,734	4.48%	4
2033	4,702	5.20%	1

As at December 31, 2023, $44.83 million of debt was payable in US dollars (2022: $53.12 million).

f) REIT - convertible debentures

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

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

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

Liquidity & Capital Resources

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

As at ($000s except as noted)	2023	2022
Cash & cash equivalents	**34,690**	80,465
Restricted cash	**1,719**	2,761
Accounts receivable	**10,631**	12,487
Agreements receivable	**126,070**	97,232
Revolving credit facilities	**109,836**	128,473
Accounts payable and accrued liabilities	**48,257**	53,213
Total assets	**2,097,473**	2,167,050
Total liabilities	**887,895**	988,714
Debt to equity ratio (1)	**0.73**	0.84

(1) Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 37 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 Melcor Property purchases.

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

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

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

Cash requirements

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

Contractual obligations include:

		Payments due by period			
	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Debt on investment properties and golf course assets	509,008	63,222	180,598	98,457	166,731
Revolving credit facilities	109,836	109,836	–	–	–
Project specific financing	7,724	7,724	–	–	–
REIT debenture	46,000	46,000	–	–	–
Interest expense	91,352	31,949	18,064	11,730	29,609
Total contractual obligations	763,920	258,731	198,662	110,187	196,340

We also have a contractual obligation of $53.80 million on the non-controlling interest portion of REIT units as they are redeemable at the option of the holder.

Sources and uses of cash

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

	2023	2022
Cash flows from operating activities	**48,808**	18,351
Cash flows from investing activities	**4,635**	18,330
Cash flows used in financing activities	**(98,966)**	(17,259)

Operating activities:

Cash from operations was up by $30.46 million to $48.81 million in 2023 compared to $18.35 million in 2022. FFO, which adjusts for non-cash items was up $23.60 million to $84.46 million in 2023 compared to $60.86 million in 2022 with the increase primarily attributable to higher revenue generated by our Land division.

In 2023, we purchased land for $4.80 million compared with land purchases of $4.25 million in 2022. Development activities within our Land division provided cash inflows of $12.08 million in 2023 compared to $44.65 million in net cash outflows in 2022, contributing $56.72 million to the overall variance.

Agreements receivables at year end were $126.07 million, up from $97.23 million as a result of the high volume of sales in the fourth quarter of 2023. This had a negative impact of cash in the year of $28.84 million compared to a positive impact of $30.51 million in 2022. We also incurred $13.31 million in tenant incentives and direct leasing costs in 2023, down $1.79 million from 2022 adding to the variance. These costs can vary year over year tenant on the mix of leasing that occurs.

Investment activities:

Cash from investing activities was $4.64 million, compared to $18.33 million in 2022.

In 2023 we sold two investment properties, including Stafford Common located in Lethbridge, AB for net proceeds $3.27 million and Kelowna Business Centre located in Kelowna, BC for net proceeds of $19.02 million. Kelowna Business Centre was classified as held for sale as at December 31, 2022, with the sale closing on February 1, 2023. Additionally, we sold 10 residential units in Phoenix, AZ at our Edge at Grayhawk for net proceeds of $4.55 million (US$3.36 million). In 2022 we sold 117 residential units in Phoenix, AZ for net proceeds of $35.00 million.

We continue to invest in improving our asset base through value enhancing projects. Additions to Melcor Properties include development activities in Property Development and enhancements to properties held in the Melcor Properties and REIT operating divisions. In 2023 we invested $21.56 million in properties under development, property improvements and capitalized borrowing costs, compared with $16.01 million in 2022, up $5.56 million over 2022.

Financing activities:

Cash used in financing activities was up $81.71 million over 2022. Significant factors include an increase in cash outflows from general debt of $56.86 million related to net cash outflow of $52.47 million in the current year through financings received and repayments made, compared to net cash inflows of $4.39 million in 2022.

In 2023 we used proceeds from the US residential unit sales were used to pay down our revolving line of credit. As at December 31, 2023, we had net repayments in the year of $18.64 million on our revolving line of credit compared to net withdrawals of $41.42 million in 2022. Additionally, in 2022 we repaid $22.98 million of the 2017 debentures using availability on our REIT credit facility.

During the year, we repurchased 712,160 shares for $8.10 million through a combination of daily and block purchases as allowed under our NCIB plan. These shares were subsequently canceled and returned to treasury. This compares to 1,777,662 shares purchased for $21.44 million and subsequently canceled in 2022.

In 2023, we paid dividends of $0.64 per share (2022 - $0.58 per share), for a total cash outflow of $19.76 million, compared to $18.66 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 December 31, 2023 there were 30,662,453 common shares issued and outstanding, 100,500 stock options, and 305,304 restricted share units. Each stock option and restricted share unit is convertible to one common share upon exercise or exchange. There is only one class of shares issued. As at March 13, 2024 there were 30,662,453 common shares issued and outstanding, 100,500 stock options, and 305,304 restricted share units.

Please refer to note 16 to the consolidated financial statements for information pertaining to our outstanding shares and options.

Normal Course Issuer Bid

Melcor Developments Ltd:

On April 1, 2022 Melcor commenced a Normal Course Issuer (NCIB) which expired on March 31, 2023. Under this bid, we were allowed to purchase up to 1,641,627 shares for cancellation, representing approximately 5% of the issued and outstanding shares up to a maximum daily limit of 1,281 unless acquired under a block purchase exception. On December 22, 2022, Melcor filled the NCIB by purchasing the final shares bringing the total to the maximum 1,641,627 shares allowed.

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 December 31, 2023, 712,160 shares were purchased for cancellation by Melcor pursuant to the NCIB at a cost of $8.10 million (December 31, 2022 - 1,777,662 shares purchased at a cost of $21.44 million under the prior NCIB).

Melcor REIT:

Melcor REIT did not have an active NCIB in place in 2023.

Off Balance Sheet Arrangements

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

A discussion of our letter of credit facility arrangement can be found in the Financing section. Refer to note 19 to the consolidated financial statements for information pertaining to our guarantees and letters of credit.

Quarterly Results

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

	2023				2022			
($000s)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	125,134	88,781	65,247	36,077	76,261	61,136	51,044	53,306
Net income	10,311	28,883	21,633	2,153	37,202	23,774	25,908	2,470
FFO (2)	37,562	22,416	17,432	7,045	22,297	16,012	11,853	10,697
Per Share								
Basic earnings	0.34	0.94	0.69	0.07	1.15	0.73	0.79	0.08
Diluted earnings	0.34	0.94	0.69	0.07	1.15	0.73	0.79	0.07
FFO basic (1)	1.21	0.73	0.56	0.23	0.70	0.49	0.36	0.33
FFO diluted (1)	1.21	0.73	0.56	0.23	0.71	0.49	0.36	0.32
Book value (1)	39.45	39.50	38.32	37.63	37.71	35.55	34.78	33.81

(1) Non-GAAP financial ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 37 for further information.
(2) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 37 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 Land division in the fourth quarter, as this is when the majority of plans register. The fair value gains in our Properties division are also seasonally affected, as the majority of construction in Alberta takes place during the spring and summer months, and construction is often completed with corresponding transfers in the fourth quarter on our properties under development.

Fourth Quarter

Three months ended December 31 ($000s)	2023	2022
Revenue	125,134	76,261
Cost of sales	(75,525)	(39,194)
Gross profit	49,609	37,067
General and administrative expense	(5,802)	(5,372)
Fair value adjustment on investment properties	(22,928)	21,801
Adjustments related to REIT units	3,834	1,815
Gain on sale of assets	3	3
Operating earnings	24,716	55,314
Interest income	1,481	524
Foreign exchange gain	475	1,109
Finance costs	(14,419)	(6,794)
Net finance costs	(12,463)	(5,161)
Income before income taxes	12,253	50,153
Income tax expense	(1,942)	(12,951)
Net income for the period	10,311	37,202
Earnings per share attributable to Melcor's shareholders:		
Basic earnings per share	0.34	1.15
Diluted earnings per share	0.34	1.15

Highlights of the fourth quarter include:

- Our Properties division completed construction on 1 buildings (4,840sf).
- Our Land division registered 7 plans in 6 communities, which added 485 lots to inventory with 723 lots sold in Q4-2023. Included in the 723 lots is 518 lots sold in the Calgary region and 168 lots sold in the Edmonton region. This compares to 11 plan registrations in 8 communities adding 804 lots to inventory with 384 lots sold in Q4-2022.

Segmented information for the fourth quarter is as follows:

Three months ended December 31, 2023	**Land**	**Properties**	**REIT**	**Golf**	**Corporate**	**Subtotal**	**Intersegment Elimination**	**Total**
Revenue	96,514	11,492	18,502	731	–	127,239	(2,105)	**125,134**
Cost of sales	(62,227)	(4,725)	(8,016)	(1,144)	–	(76,112)	587	**(75,525)**
Gross profit	34,287	6,767	10,486	(413)	–	51,127	(1,518)	**49,609**
General and administrative expense	(2,080)	(1,271)	(818)	(551)	(1,788)	(6,508)	706	**(5,802)**
Fair value adjustment on investment properties	–	(15,311)	(8,429)	–	–	(23,740)	812	**(22,928)**
Gain on sale of assets	–	–	–	3	–	3	–	**3**
Interest income	1,409	27	16	5	24	1,481	–	**1,481**
Segment earnings (loss)	33,616	(9,788)	1,255	(956)	(1,764)	22,363	–	**22,363**
Foreign exchange gain								**475**
Finance costs								**(14,419)**
Adjustments related to REIT units								**3,834**
Income before income taxes								**12,253**
Income tax expense								**(1,942)**
Net income for the period								**10,311**

Three months ended December 31, 2022	**Land**	**Properties**	**REIT**	**Golf**	**Corporate**	**Subtotal**	**Intersegment Elimination**	**Total**
Revenue	61,115	11,010	18,797	834	–	91,756	(15,495)	76,261
Cost of sales	(37,595)	(4,723)	(8,214)	(1,105)	–	(51,637)	12,443	(39,194)
Gross profit	23,520	6,287	10,583	(271)	–	40,119	(3,052)	37,067
General and administrative expense	(2,262)	(1,368)	(977)	(646)	(828)	(6,081)	709	(5,372)
Fair value adjustment on investment properties	–	28,588	(9,130)	–	–	19,458	2,343	21,801
Gain on sale of assets	–	–	–	3	–	3	–	3
Interest income	433	19	9	4	59	524	–	524
Segment earnings (loss)	21,691	33,526	485	(910)	(769)	54,023	–	54,023
Foreign exchange gain								492
Finance costs								(6,177)
Adjustments related to REIT units								1,815
Income before income taxes								50,153
Income tax expense								(12,951)
Net income for the period								37,202

Outlook

Melcor owns a diverse portfolio of real estate assets; including raw land, land under development, serviced residential, multifamily and commerical lots, income-producing properties and also owns and operates championship golf courses. This diverse mix helps position us to meet demand for any real estate opportunity regardless of market conditions. There is always market volatility, but Melcor has had a resilient and proven record.

Alberta, our largest market, has undergone dramatic fluctuations throughout the past few years, due to volatile oil prices, energy policy uncertainty, pandemic operating constraints and rising interest rates. Inflation and interest rate increases have generally slowed the Canadian market however Alberta is projected to have Canada's highest GDP growth in 2024. Melcor continues to have a US presence with our Harmony development located in Colorado, and there is the potential for further land sales in the US in coming years.

Considering all challenges and opportunities, our business model has adapted to changing times and economic cycles over the years. Melcor remains cautiously optimistic that 2024 will be a satisfactory year. We will maintain our disciplined, conservative approach to operations to ensure that we remain profitable while achieving our fundamental goals of protecting shareholder investment and sharing corporate profit with our shareholders.

Interest in the REIT

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

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

As of March 13, 2024, Melcor holds a 55.4% (December 31, 2022 - 55.4% and December 31, 2023 - 55.4%) effective interest in the REIT through ownership of all Class B LP units of the partnership through an affiliate and a corresponding number of special voting units of the REIT. The Class B LP units are economically equivalent to, and are exchangeable for, trust units. Melcor is the ultimate controlling party.

As we retain control over the REIT, we consolidate the REIT and record 100% of its revenues, expenses, assets and liabilities. We reflect the public's 44.6% interest (December 31,2022 - 44.6% and 2023 - 44.6%) in the REIT as a financial liability.

Arrangements between Melcor and the REIT

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

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

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

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

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

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

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

Business Environment & Risks

A discussion of credit risk, liquidity risk and market risk can be found in note 28 to the consolidated financial statements.

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

General Risks

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

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

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

Adverse Global Market, Economic and Political Conditions

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

Real Estate Risk

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

Other real property risks include:

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

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

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

Concentration of Assets Risk

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

Financing & Interest Rates Risk

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

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

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

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

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

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

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

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

Environmental Risk

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

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

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

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

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

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

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

Pandemics, Natural Disasters or Other Unanticipated Events

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

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

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

Cyber Security Risk

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

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

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

Volatile Market Price of the Melcor's Securities

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

Insurance

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

Land

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

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

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

Properties and REIT

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

Commercial development would also be subject to risks that would normally be associated with the construction industry (such as fluctuating labour, material and consulting costs), combined with the normal leasing risks. We manage the overall costs of projects, project financing requirements, construction quality, and the suitability of projects in relation to the needs of the tenants who will occupy the completed building. Our Properties division may be subject to additional holding costs if an asset is not leased out on a timely basis.

Golf

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

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

Other Financial Information

Critical Accounting Estimates

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

Our significant accounting policies and accounting estimates are contained in the consolidated financial statements. Please refer to note 3 to the consolidated financial statements for a description of our accounting policies and note 4 and 5 for a discussion of accounting estimates and judgments.

Changes in Accounting Policies and Adoption of IFRS Accounting Standards

Refer to note 3 to the consolidated financial statements for information pertaining to accounting pronouncements that will be effective in future years.

Subsequent Events

Please refer to note 30 to the consolidated financial statements for information pertaining to subsequent events.

Joint Arrangement Activity

We record only our proportionate share of the assets, liabilities, revenue and expenses of our joint arrangements. Refer to note 23 to the consolidated financial statements for a listing of our current joint arrangements. The following table illustrates selected financial data related to joint arrangements at 100% as well as the net portion relevant to Melcor.

Joint arrangement activity at 100% ($000s)	2023	2022
Revenue	**207,808**	180,699
Earnings	**66,789**	65,828
Assets	**971,892**	1,057,719
Liabilities	**338,385**	458,591

Joint arrangement activity at Melcor's ownership % ($000s) (1)	2023	2022
Revenue	**95,985**	81,364
Earnings	**30,986**	29,055
Assets	**455,174**	476,009
Liabilities	**159,580**	195,666

(1) *Ownership in joint arrangements varies from 7% - 67%.*

Internal Control over Financial Reporting and Disclosure Controls

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant and material information is gathered and reported to senior management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), in a timely manner. Under the supervision of the CEO and CFO, we carried out an evaluation of the effectiveness of our disclosure controls and procedures as defined in Canada by National Instrument 52-109 as of December 31, 2023. Based on this evaluation, our CEO and CFO concluded that the design and operation of our disclosure controls and procedures related to Melcor and its subsidiaries and joint arrangements were effective.

Internal control over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS Accounting Standards. Management designed these controls based on the criteria set out in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013 Framework). The CEO and CFO have certified that the internal controls over financial reporting were properly designed and effective for the year ended December 31, 2023.

There has been no change to Melcor's disclosure controls and procedures or internal control over financial reporting during the year ended December 31, 2023, that materially affected, or is reasonably likely to materially affect, Melcor's internal control over financial reporting.

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

Non-GAAP and Non-standard Measures

Melcor's financial statements are prepared in accordance with IFRS Accounting Standards. 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 Accounting Standards. These non-standard measures may not be comparable to similar measures presented by other companies. We use REALpac definitions for items such as FFO except for FFO we have included an adjustment for amortization of deferred financing fees, which is included in non-cash financing costs.

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

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

Calculations

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

Melcor Properties

($000s)	Three-Months		Year Ended	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Segment earnings [1]	**(9,788)**	33,526	**6,188**	49,552
Fair value adjustment on investment properties	**15,311**	(28,588)	**13,784**	(28,805)
General and administrative expenses	**1,271**	1,368	**5,051**	5,233
Interest income	**(103)**	(34)	**(117)**	(35)
Amortization of tenant incentives	**601**	447	**2,480**	1,620
Straight-line rent adjustments	**(117)**	(239)	**(452)**	(2,237)
Divisional NOI	**7,175**	6,480	**26,934**	25,328

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

REIT

($000s)	Three-Months		Year Ended	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Segment earnings [1]	**1,255**	485	**22,807**	27,723
Fair value adjustment on investment properties	**8,429**	9,130	**16,794**	11,995
General and administrative expenses	**818**	977	**3,112**	3,358
Interest income	**(16)**	(9)	**(62)**	(31)
Amortization of tenant incentives	**956**	962	**3,975**	3,725
Straight-line rent adjustments	**88**	(85)	**9**	(451)
Divisional NOI	**11,530**	11,460	**46,635**	46,319

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

Further discussion over NOI can be found in the Properties and REIT divisional results sections starting on page 17 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 Properties and REIT divisional results sections starting on page 17 of the MD&A.

Fair value of investment properties: Fair value of investment properties starting on page 21 is a supplementary financial measure and is calculated as the sum of the balance sheet balances for investment properties and assets held for sale and other assets (TI's and SLR).

Gross margin (%): Gross margin percent is a supplementary that indicates the relative efficiency with which we earn revenue. This ratio is calculated by dividing gross profit by revenue. Please refer to the 2023 Highlights section on page 11 of the MD&A for further discussion.

Net margin (%): Net margin percent is a supplementary financial measure that indicates the relative efficiency with which we earn income. This ratio is calculated by dividing net income by revenue. Please refer to the 2023 Highlights section on page 11 of the MD&A for further discussion.

Book value per share: Book value per share is a non-GAAP financial ratio and is calculated as shareholders' equity over number of common shares outstanding. Please refer to the 2023 Highlights section on page 11 of the MD&A for further discussion.

Debt to equity ratio: this is a non-GAAP financial ratio and is calculated as total debt over total equity. Refer to the Liquidity & Capital Resources section on page 27 of the MD&A for further discussion.

Portion of total revenue: Portion of total revenue is a supplementary financial measure and is calculated as divisional revenue over total consolidated revenue. Refer to the Divisional Results section on page 14 of the MD&A for further information.

Portion of total gross profit: Portion of total gross profit is a supplementary financial measure and is calculated as divisional gross profit over total consolidated gross profit. Refer to the Divisional Results section on page 14 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 Accounting Standards, excluding (i) fair value adjustments on Melcor Properties; (ii) gains (or losses) from sales of Melcor Properties; (iii) amortization of tenant incentives; (iv) fair value adjustments, interest expense and other effects of redeemable units classified as liabilities; (v) acquisition costs expensed as a result of the purchase of a property being accounted for as a business combination; (vi) adjustment for amortization of deferred financing fees, which is included in non-cash financing costs and (vii) fair value adjustment on derivative instrument, after adjustments for equity accounted entities, joint ventures and non-controlling interests calculated to reflect FFO on the same basis as consolidated properties. Further discussion over FFO, including a reconciliation from net income, can be found in the Funds from Operations section on page 13 of the MD&A and in the tables below:

Consolidated

($000s)	Three-Months		Year Ended	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Net income for the year	**10,311**	37,202	**62,980**	89,354
Amortization of tenant incentives	**2,042**	1,941	**8,416**	7,561
Fair value adjustment on investment properties	**22,928**	(21,801)	**24,456**	(21,554)
Depreciation of property and equipment	**198**	209	**1,260**	1,350
Stock based compensation expense	**286**	(6)	**1,057**	841
Non-cash financing costs (recoveries)	**6,275**	(607)	**4,766**	(8,518)
Gain on sale of assets	**(3)**	(3)	**(51)**	(40)
Deferred income taxes	**914**	8,214	**(336)**	8,225
Fair value adjustment on REIT units	**(5,389)**	(2,852)	**(18,093)**	(16,360)
FFO	**37,562**	22,297	**84,455**	60,859

Properties

($000s)	Three-Months		Year Ended	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Divisional income for the year (1)	**(9,788)**	33,526	**6,188**	49,552
Fair value adjustment on investment properties	**15,311**	(28,588)	**13,784**	(28,805)
Amortization of tenant incentives	**601**	447	**2,480**	1,620
Divisional FFO	**6,124**	5,385	**22,452**	22,367

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

REIT

($000s)	Three-Months		Year Ended	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Divisional income for the year (1)	**1,255**	485	**22,807**	27,723
Fair value adjustment on investment properties	**8,429**	9,130	**16,794**	11,995
Amortization of tenant incentives	**956**	962	**3,975**	3,725
Divisional FFO	**10,640**	10,577	**43,576**	43,443

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

FFO per share: FFO per share is a non-GAAP financial ratio and is defined as FFO over basic weighted average common shares outstanding. Refer to the Funds From Operations Section on page 13 of the MD&A for further discussion.