Management's Discussion & Analysis

May 14, 2024

The following discussion of Melcor Developments' (Melcor's) financial condition and results of operations should be read in conjunction with the condensed interim consolidated financial statements and related notes for the quarter ended March 31, 2024, and management's discussion & analysis (MD&A) and consolidated financial statements for the fiscal year ended December 31, 2023.

The financial statements underlying this MD&A, including 2023 comparative information, have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting, unless otherwise noted. All dollar amounts included in this MD&A are Canadian dollars unless otherwise specified.

Melcor's Board of Directors approved the content of this MD&A on May 14, 2024, on the recommendation of the Audit Committee.

Other Information

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

Non-standard Measures

We refer to terms that are not specifically defined in the CPA Handbook and do not have any standardized meaning prescribed by IFRS 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, 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 and the updated risk disclosure contained in the Business Environment & Risks section contained in this MD&A.

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

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Our Business

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

Since 1923, our focus has been the business of real estate. We've built over 170 communities and commercial projects across western Canada since the 1950s and have helped to shape much of Alberta's landscape. We manage 4.81 million square feet (sf) in commercial real estate assets and 464 residential rental units. We have been a public company since 1968 (TSX: MRD).

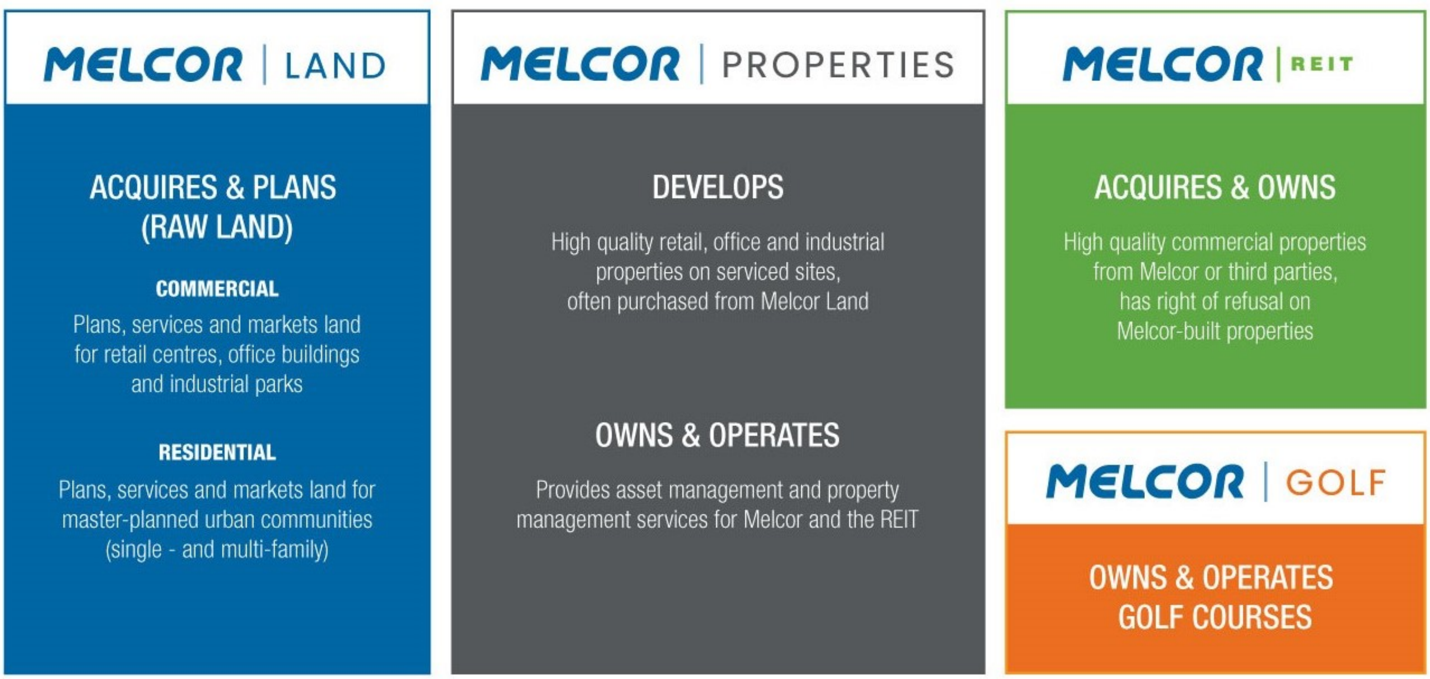
We are committed to building communities that enrich quality of life - communities where people live, work, shop and play.

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 commercial 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.

Melcor has $2.09 billion in assets. The following diagram illustrates how each of our operating divisions complements one another to create and enhance value from our real estate asset.



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

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

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

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

Glossary of Acronyms

Common Acronyms			
CRU	commercial retail unit	**NCIB**	normal course issuer bid
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		

First Quarter Highlights

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

($000s except as noted)	Three months ended March 31		
	2024	2023	Change %
Revenue	**49,748**	36,077	37.9
Gross margin[1]	**47.5 %**	50.5 %	(5.9)
Net income	**12,788**	2,153	494.0
Net margin[1]	**25.7 %**	6.0 %	328.3
FFO[2]	**13,748**	7,045	95.1
Per Share Data ($)			
Basic earnings	**0.42**	0.07	500.0
Diluted earnings	**0.42**	0.07	500.0
FFO[3]	**0.45**	0.23	95.7
Dividends	**0.11**	0.16	(31.3)

As at ($000s except share and per share amounts)	**31-Mar-2024**	31-Dec-2023	Change %
Total assets	**2,087,034**	2,097,473	(0.5)
Shareholders' equity	**1,223,272**	1,209,578	1.1
Total shares outstanding	**30,576,837**	30,662,453	(0.3)
Per Share Data ($)			
Book value [(3)]	**40.01**	39.45	1.4

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

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

The land development market has been experiencing steady growth sustained by continued demand for residential, commercial and industrial properties. Population growth, fueled by both natural increase and migration, remains a driving force behind the demand for housing and infrastructure. Urbanization further amplifies this demand, particularly in major cities like Edmonton and Calgary, where residential, commercial, and industrial spaces are in high demand. Despite challenges such as fluctuating material costs and regulatory hurdles, the overall sentiment is optimistic. Opportunities continue to exist for investment and expansion in our various sectors of the market allowing our Land, Properties and Golf divisions to continue to generate stable results.

In Q1-2024, results have yielded a gross margin of 47.5% down slightly over Q1-2023. Net income was up $10.64 million over Q1-2023. Net income is impacted by non-cash fair value adjustments such as fair value adjustments on investment properties and fair value adjustment related to REIT units which can swing significantly quarter after quarter. Management believes that FFO is a more accurate representation of true operating performance which was up 95.1% to $13.75 million in Q1-2024 (Q1-2023 - $7.05 million).

Our Land division produced strong results, with revenue up 156% to $21.07 million and earnings up 260% to $6.89 million in the quarter compared to Q1-2023. In Q1-2024 our Land division contributed 40.7% of our total revenue before intersegment eliminations (Q1-2023 - 21.6%). Single-family lot sales were down to 66 lots sold in Q1-2024 (Q1-2023 - 82) which was more than offset by an increase in multi-family and other land sales at 22.20 acres (Q1-2023 - 3.73 acres).

Our Income Properties (Properties and REIT divisions) contributed 59.0% of revenue before intersegment eliminations in Q1-2024 compared to 78.0% in Q1-2023. Our leasing team has been actively pursuing and securing new leases across all asset classes, successfully increasing our occupancy levels over year-end to 87.4% (December 31, 2023 - 86.2%). Overall revenue from our Income Properties was up 2.6% in Q1-2024. Revenue and NOI can be impacted by disposition of assets and the completion of new commercial builds in our Properties division.

We continue to strategically assess our assets within our Income Properties segment, with an aim to focus on our core Alberta market. In 2023 we sold two properties including one office property in our REIT division (Melcor REIT) located in Kelowna, BC for $19.50 million, and one retail property in our Properties division located in Lethbridge, AB for gross proceeds of $3.50 million. We have also listed three retail properties located in Regina SK, and one office property located in Kelowna, BC as assets held for sale in accordance with IFRS Accounting Standards. These properties are all held in Melcor REIT.

Subsequent to the quarter, on May 10, 2024, we sold a 29,000 square foot office building located in Kelowna, BC for gross proceeds of $7.80 million ($7.48 million net of transaction costs). This property was classified as asset held for sale at quarter end. Net cash from the sale of this asset will be used to reduce debt in the REIT.

FINANCIAL HIGHLIGHTS

Revenue was up 37.9% to $49.75 million in Q1-2024 (Q1-2023: $36.08 million), with gross profit up 29.5% to $23.61 million (Q1-2023: $18.24 million). The real estate industry is impacted by the cyclical nature of development, demand for product, the timing of raw and multi-family land sales and lot registrations. Lot sales, which have a significant impact on quarterly results, are uneven by nature and it is difficult to predict when they will close.

FFO was up 95.1% to $13.75 million in Q1-2024 (Q1-2023: $7.05 million). The increase in FFO is a direct result of the increase in revenue in the period in our Land division.

Net income was up 494.0% to $12.79 million in Q1-2024 (Q1-2023: $2.15 million). Net income is significantly impacted by swings in non-cash fair value adjustments on investment properties, REIT units, the revaluation of interest rate swaps and the conversion feature on our convertible debenture. The change in the REIT's unit price has a counter-intuitive impact on net income as an increase in unit value decreases net income. In Q1-2024 the fair value adjustment on REIT units swung by $10.76 million over Q1-2023. These gains are driven by market forces outside of Melcor's control and are a key reason we focus on FFO as a truer measure of our financial performance.

DIVISIONAL OPERATING HIGHLIGHTS

Our **Land** division brought in revenue of $21.07 million, up from $8.22 million in Q1-2023. Revenue growth was the result of the 22.20 acres sold in the current quarter including multi-family, commercial and industrial land sales. This compares to 3.73 acres sold in Q1-2023. We also closed on 66 single-family lots in the quarter (Q1-2023 - 82). Edmonton contributed our largest sales volume with 38 single-family lot sales and 19.87 acres sold in Q1-2024.

Our **Properties** division completed construction on one retail building, contributing an additional 31,800 sf to our portfolio of income-generating properties located within our Woodbend Retail development.

Our **Income Properties** (Properties and REIT) accounted for 61.5% of revenue, after intersegment eliminations compared to 82.7% in Q1-2023. Occupancy increased slightly over year-end to 87.4% (December 31, 2023: 86.2%) and was down over last year (Q1-2023: 87.8%).

Within our **Golf** division, our Black Mountain course located in Kelowna, BC was able to get an early start opening the season on March 22, 2024, while our Edmonton courses opened subsequent to the quarter.

RETURNING VALUE

We continue to return value to our shareholders:

Melcor Developments:

- We repurchased 85,616 shares for cancellation pursuant to the NCIB at a cost of $0.99 million during Q1-2024.
- On May 14, 2024, we declared a quarterly dividend of $0.11 per share, payable on June 28, 2024, to shareholders of record on June 14, 2024. The dividend is an eligible dividend for Canadian tax purposes.

Melcor REIT:

- The REIT paid a monthly distribution in the amount of $0.04 per unit for the period of January 2024.
- On February 22, 2024, the Board of Trustees of Melcor REIT announced the establishment of an Independent Committee (the "Independent Committee") to oversee a broad-based strategic review with a focus on unlocking unitholder value. The Independent Committee has retained BMO Capital Markets as financial advisor and DLA Piper (Canada) LLP as legal counsel to evaluate a broad range of strategic alternatives to maximize unitholder value. The Independent Committee is chaired by Richard Kirby, and also includes Bernie Kollman and Barry James as committee members. The REIT will continue to provide updates to the market as they become available.

REVENUE & MARGINS

Consolidated revenue was up 37.9% to $49.75 million in the quarter (Q1-2023: $36.08 million). Revenue increases are the result of higher revenue in our Land division in the quarter which is up 156% over Q1-2023.

Land accounted for 42.3% (2023: 22.8%) of total revenue, after intersegment eliminations. Land revenue was up 156.3% to $21.07 million and earnings were up 259.8% to $6.89 million over Q1-2023. Revenues can vary quarter over quarter due to the timing of lot sales and plan registrations. In Q1-2024 multi-family and commercial sales were up $6.11 million and $5.64 million respectively over Q1-2023. Our Land division saw an increase in its margins to 39.6% (Q1-2023: 39%). Margins in our Land division can vary significantly depending on the product type being sold, as well as the region of our lot sales. Land revenue is highly dependent on the demand for new homes in the regions where we hold land, the timing of raw, commercial and multi-family land sales, and the timing of registration on single-family lots.

Our Income Properties (Properties and REIT divisions) accounted for 62% of year-to-date revenue, after intersegment eliminations compared with 82.7% in 2023. Our Income Properties maintained a steady gross margin of 56.0% (Q1-2023: 56.5%). Gross profit generated from this segment was up slightly to $30.60 million compared to $29.82 million. The increase in revenue and margin is a direct result of our continuous growth of our portfolio through our property development component of our Properties division.

Consolidated gross margin decreased to 47.5% in Q1-2024 (Q1-2023: 50.5%). This variance is due to a decrease in proportionate gross profit contributed from the Income Properties segment compared to the prior year. Our Income Properties divisions tend to generate higher margins than our Land division.

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

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

Funds From Operations (FFO)

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

Below is a reconciliation of net income to FFO:

($000s)	Three months ended March 31		
	2024	2023	Change %
Net income for the period	**12,788**	2,153	494.0
Amortization of tenant incentives	**4,138**	2,320	78.4
Fair value adjustment on investment properties	**8,833**	2,484	255.6
Depreciation on property and equipment	**142**	145	(2.1)
Stock based compensation expense	**296**	230	28.7
Non-cash finance costs	**(1,227)**	2,778	(144.2)
Gain on sale of asset	**(47)**	–	–
Deferred income taxes	**881**	(732)	(220.4)
Fair value adjustment on REIT units	**(12,056)**	(2,333)	416.8
FFO[1]	**13,748**	7,045	95.1
FFO per share[2]	**$0.45**	$0.23	95.7

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

FFO was up 95.1% or $6.70 million in the quarter compared to Q1-2023. The increase in FFO was a direct result of a higher gross profit, up 29.5% or $5.37 million in the quarter, excluding non-cash items including amortization gross profit was up $7.19 million or 35.0%. This increase was partially offset by higher expenses including cash finance costs, which have felt upward pressure with rising interest rates compared to 2023.

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

Divisional Results

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

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 the results of our operating divisions:

	Land		Properties		REIT		Golf	
	Three months March 31,		Three months March 31,		Three months March 31,		Three months March 31,	
($000s except as noted)	**2024**	2023	**2024**	2023	**2024**	2023	**2024**	2023
Revenue	**21,066**	8,218	**11,696**	10,829	**18,905**	18,990	**143**	70
Portion of total revenue %	**41 %**	22 %	**23 %**	28 %	**36 %**	50 %	**— %**	— %
Cost of sales	**(12,716)**	(5,007)	**(5,121)**	(4,613)	**(8,334)**	(8,352)	**(565)**	(498)
Gross profit	**8,350**	3,211	**6,575**	6,216	**10,571**	10,638	**(422)**	(428)
Gross margin %[1]	**40 %**	39 %	**56 %**	57 %	**56 %**	56 %	**(295)%**	(611)%
Portion of total margin[1]	**33 %**	34 %	**26 %**	23 %	**42 %**	38 %	**(2)%**	5 %
General and administrative expense	**(1,931)**	(1,842)	**(1,248)**	(1,301)	**(1,020)**	(779)	**(355)**	(393)
Fair value adjustment on investment properties	**—**	—	**(575)**	(1,617)	**(9,056)**	(1,586)	**—**	—
Gain on sale of assets	**—**	—	**—**	—	**—**	—	**47**	—
Interest income	**468**	545	**31**	23	**14**	19	**3**	—
Segment earnings (loss)	**6,887**	1,914	**4,783**	3,321	**509**	8,292	**(727)**	(821)

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

Land

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

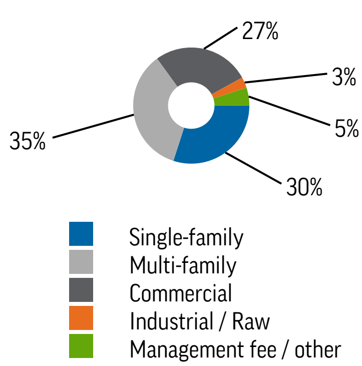
Master-planned mixed-use residential communities comprise the majority of Land's portfolio. We create efficient and sustainable urban communities by establishing an overall vision for each community and the amenities that will make it a desirable place to live. Residential lots and multi-family parcels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

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

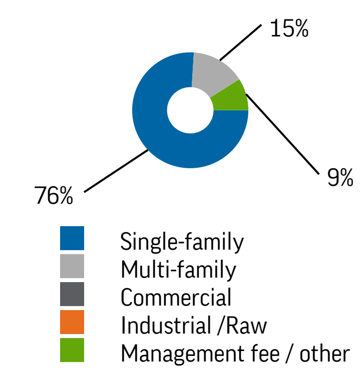
Sales Activity

REVENUE BY TYPE

Three months ended March 31, 2024



Three months ended March 31, 2023



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

Consolidated	Three months ended March 31,	
	2024	2023
Canada Sales data: (including joint ventures at 100%)[1]		
Single-family sales (number of lots)	**66**	82
Gross average revenue per single-family lot ($)	**161,730**	152,476
Multi-family sales (acres)	**12.20**	3.73
Gross average revenue per multi-family acre ($)	**1,082,213**	950,000
Commercial sales (acres)	**8.55**	–
Gross average revenue per commercial land acre ($)	**1,318,246**	–
Other land sales - raw, other (acres)	**1.45**	–
Gross average revenue per other land acre ($)	**470,000**	–
Divisional results: (including joint ventures at Melcor's interest)[1]		
Revenue ($000s)	**21,066**	8,218
Earnings ($000s)	**6,887**	1,914

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

Our Land division had a strong first quarter with revenues up 156.3% to $21.07 million compared to Q1-2023 at $8.22 million. This increase was the result of an increase in multi-family, commercial and other land sales with 22.20 acres sold in Q1-2024 (Q1-2023: 3.73 acres). Single-family homes sales saw a slight reduction to 66 lots from 82 lots in Q1-2023. Divisional earnings were $6.89 million, up 259.8% compared to Q1-2023 (Q1-2023: $1.91 million).

The gross margin for the Land division is strongly impacted by the mix of both product type and location of inventory sold. Gross margin saw a slight increase in Q1-2024 to 39.6% compared to Q1-2023 at 39.1%.

In 2024, a large portion of our single-family lot sales are in joint ventures where Melcor's interest ranges from 7% to 67%, depending on the joint venture. Sales data, including number of lots shown, is at 100% whereas our division results, including revenue and earnings, is shown at Melcor's interest. This can lead to disproportionate changes in the number of lots sold in comparison to changes in revenue and earnings reporting for the division. Revenue can also be significantly impacted by acres sold, which may vary period to period.

In the quarter, we sold 66 single-family lots (Q1-2023: 82) in our Canadian markets. No lots were sold in our US markets. The Edmonton region contributed the largest volume of single-family lot sales Q1-2024 at 38 (Q1-2023: 78). Red Deer had a strong quarter contributing 15 single-family lot sales in the quarter (Q1-2023: nil), and the Calgary region sold 11 single-family lot sales (Q1-2023: nil). The timing of plan registrations can have a significant impact on when revenue is recorded.

In Q1-2024 we sold 10.00 acres of commercial and industrial land within our Edmonton region including 8.55 acres of commercial development within Mattson development (Edmonton, AB) and an additional 1.45 acres within our Telford Lake Industrial development.

We have also sold 12.20 acres of multi-family land in the quarter, including 9.87 acres across two communities in Edmonton and 2.33 acres in one community in our Lethbridge region.

The average sale price on single-family lots increased 6% from Q1-2023. Single-family lot sales cover a wide mix of product categories at various price points from starter town homes and duplexes to lakefront estate lots.

We continue to develop new phases in communities where demand is evident. We remain committed to managing our risk in uncertain markets by ensuring that market demand is in place prior to proceeding with development, and by ensuring that our product mix is aligned with current market preferences. In Q1-2024 we registered two new phases located in one community within our Edmonton region (Q1-2023: four phases in two communities).

Regional Sales Analysis

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

	Three months ended March 31, 2024			Three months ended March 31, 2023		
(including joint ventures at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Other (Acres)**	Single- family (Lots)	Multi-family (Acres)	Other (Acres)
Edmonton Region	**38**	**9.87**	**10.00**	78	3.73	–
Red Deer	**15**	**–**	**–**	2	–	–
Calgary Region	**11**	**–**	**–**	–	–	–
Lethbridge	**2**	**2.33**	**–**	–	–	–
Kelowna	**–**	**–**	**–**	2	–	–
United States	**–**	**–**	**–**	–	–	–
	66	**12.20**	**10.00**	82	3.73	–

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

Inventory

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

	Three months ended March 31, 2024				Three months ended March 31, 2023			
	CANADA			USA	CANADA			USA
(including joint ventures at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Other (Acres)**	**Single-family (Lots)**	Single- family (Lots)	Multi-family (Acres)	Other (Acres)	Single-family (Lots)
Open	**606**	**49.83**	**113.48**	**1**	949	58.19	116.33	1
New developments	**55**	**4.80**	**8.55**	**–**	141	3.73	–	234
Redevelopment	**–**	**–**	**–**	**–**	–	–	–	–
Internal sales	**–**	**–**	**–**	**–**	–	–	–	–
Sales	**(66)**	**(12.20)**	**(10.00)**	**–**	(82)	(3.73)	–	–
	595	**42.43**	**112.03**	**1**	1,008	58.19	116.33	235

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

Raw land inventory

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

In Q1-2024 we had no purchases of raw land. In Q1-2023 we purchased one 40.00 acre parcel of land in Leduc, AB for $2.40 million. The parcel of land was adjacent to existing raw land holdings for future residential development.

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

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 value creation.

Property Development

The 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 recognize 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 4.81 million sf of income-producing commercial GLA and 464 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:

(as at, at JV%, except as noted)	**31-Mar-2024**	31-Dec-2023
Commercial properties GLA under management (sf, total)	**4,814,324**	4,771,105
Properties owned and managed (sf)	**1,200,952**	1,169,055
Properties managed (sf)	**3,613,372**	3,602,050
Residential units managed	**464**	466
Occupancy - CAD	**89.1 %**	84.1 %
Occupancy - US	**83.1 %**	80.5 %
Weighted Average Base Rent (per sf) - CAD	**$27.60**	$28.84
Weighted Average Base Rent (per sf) - US	**$21.82**	$22.16
Fair value adjustment on investment properties ($000)	**(621)**	(18,768)
Commercial properties under development (sf, total)		
Number of properties completed	**1**	2
Properties completed (sf)	**31,800**	22,140
Number of properties under active construction	**4**	5
Properties under active construction (sf)	**90,596**	130,925
Fair value recognized on properties under development ($000s)	**46**	4,984

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

($000s and at JV%, except as noted)	**Three months ended March 31,**	
	2024	2023
Revenue (total)	**11,696**	10,829
Canadian properties	**6,436**	5,743
US properties	**3,433**	3,465
Management fees	**1,575**	1,406
Parking lots and other assets	**252**	215
Net operating income (NOI)[1]	**7,069**	6,719
Funds from operations[1]	**6,108**	5,699
Funds from operations per share[2]	**$0.20**	$0.18

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

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

Canadian properties

In 2023 we merged our "Investment Property" 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 Property" and "Property Development" divisions.

Our Canadian property portfolio continues to grow via completions from our internal development. In Q1-2024, we completed construction and lease-up of 1 building (31,800 sf). No properties were completed in Q1-2023. In addition to the properties completed, we have 4 buildings totaling 90,596 sf in active development at the end of Q1-2024 (Q1-2023: 5 buildings totaling 130,925 sf in active development).

New properties completed in the current and comparative periods added $0.77 million to NOI in Q1-2024 (Q1-2023 - $0.52 million) as detailed in same asset NOI table below. With 90,596 sf of GLA under active development, we expect our Canadian property portfolio to continue to grow.

Occupancy of our Canadian properties owned by Melcor was up to 89.1% at March 31, 2024 (December 31, 2023 - 84.1%). Committed occupancy is 89.9% (December 31, 2023 - 86.3%). Weighted average base rent was down $1.24 per sf to $27.60 per sf (December 31, 2023 - $28.84 per sf).

Fair value gains on properties under active development are recognized throughout the development process until the property is recognized at fair market value. From development we generated $0.05 million in fair value gains compared to $0.32 million in Q1-2023.

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

($000s and at JV%, except as noted)	Three months ended March 31,	
	2024	2023
Northern Alberta	**46**	–
Southern Alberta	**–**	322
	46	322

Net operating income (NOI) and same asset NOI are non-standard metrics used in the real estate industry to measure the performance of Melcor's properties. The IFRS Accounting Standards measurement is 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 and at JV%, except as noted)	Three months ended March 31,	
	2024	2023
Same-asset NOI[1]	**3,378**	3,343
Third party disposals	**–**	35
Properties recently completed construction	**774**	524
NOI[1]	**4,152**	3,902
Amortization of tenant incentives	**(437)**	(537)
Straight-line rent adjustment	**259**	246
Gross profit	**3,974**	3,611

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

Gross profit was up 10.1% or $0.36 million over Q1-2023. NOI increased by 6.4% or $0.25 million over Q1-2023.

Gross profit and NOI are impacted by property sales and commercial development. Same asset NOI is adjusted for these factors for a more direct period-over-period comparison. On a same-asset basis, NOI was up 1% in the quarter.

US properties

Revenue on US properties was down 0.9% to $3.43 million over Q1-2023. Contributing factors include a reduction in WABR by 2% to $21.82 over year-end (December 31, 2023: $22.16) offset by an increase in occupancy to 83.1% over year-end (80.5%) and over Q1-2023 (81.3%).

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

($000s and at JV%, except as noted)	Three months ended March 31,	
	2024	2023
Same-asset NOI[1]	**1,082**	1,100
Third party disposals	**–**	(13)
NOI[1]	**1,082**	1,087
Foreign currency translation	**377**	383
Amortization of tenant incentives	**(313)**	(224)
Straight-line rent adjustment	**(3)**	12
Gross profit	**1,143**	1,258

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

Due to the slight reduction in revenue paired with the inflationary pressures reflected in the higher operational expenditures, gross profit on our US properties was down 9.1% to $1.14 million over Q1-2023. NOI remained stable at $1.08 million over Q1-2023. Same-asset NOI decreased $0.02 million or 1.6% over Q1-2023.

Management fees & other

Management fees on development are 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 Q1-2024 were $0.03 million (Q1-2023: $0.02 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. These amounts are eliminated on consolidation. Management fees earned on asset and property management during Q1-2024 were $1.55 million (Q1-2023: $1.39 million)

Revenue from parking stalls and other assets was up 17% to $0.25 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 at $6.11 million in Q1-2024 (Q1-2023: $5.70 million). Segment earnings were steady at $4.78 million with offsetting swings in both fair value adjustment on investment properties of $1.04 million and amortization of tenant incentives of $0.01 million.

Fair Value of Investment Portfolio

The fair value of our income properties portfolio increased by $7.94 million over December 31, 2023. The components leading to the change in fair value include:

- recognition of completed commercial property under development, increasing portfolio value by $6.09 million
- fair value gain of $0.22 million comprised of $0.58 million loss on specific property valuations, and $0.80 million intersegment fair value adjustments reducing the fair value loss.
- the sale of 2 residential units at Edge at Grayhawk reducing the portfolio value by $0.95 million.
- property improvements of $0.04 million, and direct leasing costs of $0.01 million increasing fair value
- foreign currency translation gain of $2.57 million, and changes to tenant improvements and straight-line rent.

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

($000s)	**March 31, 2024**			December 31, 2023		
	Investment Properties	**Properties Under Development**	**Total**	Investment Properties	Properties Under Development	Total
Alberta - all assets	**(763)**	**46**	**(717)**	(5,020)	4,984	(36)
US - residential	**214**	**–**	**214**	916	–	916
US - commercial	**(72)**	**–**	**(72)**	(14,664)	–	(14,664)
	(621)	**46**	**(575)**	(18,768)	4,984	(13,784)

Investment properties were valued by Melcor's internal valuation team as at March 31, 2024. Our qualified external valuation professionals valued 2 of the 27 legal phases with a fair value of $31.50 million This resulted in fair value loss of $0.62 million recorded as fair value adjustments on investment properties in the statements of income and comprehensive income. In 2023 our qualified external valuation professionals valued 18 of the 27 legal phases with a fair value of $132.24 million which resulted in a fair value loss of $18.77 million for the year.

In 2023 our US residential properties saw significant changes in value. 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 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 14 to the consolidated financial statements for additional information on the calculation of fair value adjustments.

REIT

The REIT has an established and diversified portfolio in western Canada. We own 38 income-producing office, retail and industrial properties representing 3.15 million square feet (sf) in gross leasable area (GLA). These high-quality properties feature stable occupancy and a diversified mix of tenants.

As at May 14, 2024 we have a controlling 55.4% interest in the REIT through ownership of all Class B LP Units (December 31, 2023 - 55.4%). As we have concluded that Melcor retains control of the REIT, we consolidate 100% of the REIT's revenues, expenses, assets and liabilities. Note 12 to the Condensed Interim Financial Statements provides a breakout of the assets and liabilities of the REIT as supplemental information to assist readers in understanding Melcor's financial position.

Operating results

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

(as at, at JV%, except as noted)	31-Mar-2024	31-Dec-2023
Commercial properties GLA under management (sf, total)	**3,150,646**	3,150,646
Fair value of portfolio[1]	**682,956**	691,782
Occupancy	**87.7 %**	87.6 %
Weighted average base rent (per sq. ft.)	**$17.01**	$17.06

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

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

($000s except as noted)	Three months ended March 31,	
	2024	2023
Rental revenue	**18,905**	18,990
NOI[1]	**11,661**	11,522
Same-asset NOI[1] *(see calculation following)*	**10,923**	10,824
Fair value adjustment on investment properties	**(9,056)**	(1,586)
Funds from operations[1]	**10,524**	10,936
Funds from operations per share[2]	**$0.34**	$0.34

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

Rental revenue was flat over Q1-2023, with base rents up 1.3% offset by a swing in straight-line rent adjustment over Q1-2023.

Recoveries are amounts recovered from tenants for direct operating expenses and include a nominal administrative charge. We typically expect recovery revenue to correlate with changes in recoverable operating expenses. In the quarter, recovery revenue was down 0.6% over Q1-2023, and direct operating expenses were flat over Q1-2023. Our recovery ratio can vary quarter over quarter due to variability of expenditures within our portfolio, and the timing of expenses incurred. Prior year recovery adjustments can also impact our recovery ratio and are generally recognized in the first quarter.

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

Amortization of tenant incentives can fluctuate based on the timing of lease rollovers and leasing incentives. SLR adjustments relate to new leases which have escalating rent rates and/or rent-free periods. SLR fluctuates due to the timing of signed leases and the rent-steps under individual leases.

To date, we have signed 222,352 sf of new and renewed leasing (including holdovers) with our occupancy remaining consistent at 87.7% over December 31, 2023.

As at March 31, 2024, we have retained 97.9% (186,342 sf) of expiring leases and have received commitment on an additional 47,116 sf of future renewals representing a committed occupancy of 88.2%. As of Q1-2024, we completed 36,010 sf in new leases.

Property taxes and utilities were down 2.3% in the quarter. Although we have seen utility costs, including heating and power costs increase over the last 12 months related to government policies and regulations, due to the efforts of our Properties team we have been able to mitigate these rising costs by implementing energy efficient practices and investing in capital projects across our portfolio as seen by the reduction in our utilities comparative to Q1-2023. Property taxes stayed consistent over Q1-2023.

Operating expenses can vary quarter over quarter due to the timing of maintenance projects. Overall, we have seen increases in costs as a result of inflationary pressures. In Q1-2024, operating expenses were up 2.2% over Q1-2023.

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

($000s except as noted)	Three months ended March 31,	
	2024	2023
Same-asset NOI[1]	**10,923**	10,824
Disposals	**738**	698
NOI before adjustments	**11,661**	11,522
Amortization of tenant incentives	**(959)**	(1,058)
Straight-line rent adjustment	**(131)**	174
Net rental income	**10,571**	**10,638**

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

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

Same-asset NOI in the current and comparative periods exclude Kelowna Business Center, located in Kelowna, BC which sold on February 1, 2023, and the assets classified as held for sale including three retail properties located in Regina SK, and one office property located in Kelowna, BC. NOI was up 1.2% and same-asset NOI was up 0.9% over Q1-2023.

Funds from operations

FFO is a non-GAAP financial measure used in the real estate industry to measure the operating performance of investment properties. Refer to the Non-GAAP and Non-Standard Measures section for further information. FFO was consistent Q1-2024 at $10.52 million (Q1-2023: $10.94 million).

Golf

Our 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 to maximize their enjoyment at our golf courses and to enhance divisional performance through revenue growth and cost savings.

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

All courses opened subsequent to the first quarter of 2024, with the exception of Black Mountain which opened March 22, 2024.

	Ownership Interest	**2024**	2023
		Season opened	Season opened
Managed by Melcor:			
Lewis Estates (Edmonton)	60%	**April 10**	April 19
The Links (Spruce Grove)	100%	**April 11**	April 20
Black Mountain (Kelowna)	100%	**March 22**	April 4
Managed by a Third Party:			
Jagare Ridge (Edmonton)	50%	**April 22**	April 25

General & Administrative Expense

G&A expenses were up $0.35 million or 6.3% in the quarter to $5.85 million (Q1-2023 $5.51 million). Our Q1-2024 G&A was impacted by higher G&A in our REIT division associated with the establishment of the Independent Committee in February 2024 including additional legal costs and fees paid to the committee members. Additionally, our valuation program requires the revaluation of each legal phase every two years or as market conditions dictate. In 2024 due to the cyclical nature of these valuations and the timing of the upcoming revolving credit facility renewal we had an increase in the amount of valuations comparative to Q1-2023.

Management continues to prudently monitor and manage controllable expenses.

Income Tax Expense

The statutory tax rate is 23.0% for the three months ended March 31, 2024 (2023: 23.0%). Items that impacted the effective tax rate include permanent differences related to revaluation adjustments on investment properties, distributions to REIT unitholders and the non-taxable portion of REIT income.

Liquidity & Capital Resources

The following table represents selected information as at March 31, 2024, compared with December 31, 2023.

As at ($000s except as noted)	**31-Mar-2024**	31-Dec-2023
Cash & cash equivalents	**30,914**	34,690
Restricted cash	**1,765**	1,719
Accounts receivable	**8,448**	10,631
Agreements receivable	**126,147**	126,070
Revolving credit facilities	**113,918**	109,836
Accounts payable and accrued liabilities	**39,269**	48,257
Total assets	**2,087,034**	2,097,473
Total liabilities	**863,762**	887,895
Debt to equity ratio[1]	**0.71**	0.73

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

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

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

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

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

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

Financing & Liquidity

Total liquidity (cash and MDL & REIT operating line availability) was $104.96 million as at March 31, 2024 (December 31, 2023: $111.94 million). Our total general debt outstanding was $671.08 million as at March 31, 2024 (December 31, 2023: $670.17 million).

A summary of our debt is as follows:

As at ($000s)	**31-Mar-2024**	31-Dec-2023
Melcor - revolving credit facilities	**76,311**	71,976
REIT - revolving credit facility	**37,607**	37,860
Project specific financing	**8,155**	7,724
Debt on investment properties and golf course assets	**503,585**	507,463
REIT - convertible debentures	**45,420**	45,151
General debt	**671,078**	670,174

We are subject to financial covenants on our revolving credit facility. The covenants include a maximum debt to total capital ratio of 125%, a minimum debt service coverage ratio of 3.00, and a minimum net book value of shareholder's equity of $300.00 million. As at March 31, 2024 and throughout the period, we were in compliance with our financial covenants.

We are also subject to financial covenants on the REIT's revolving credit facility. The covenants include a maximum debt to total capital ratio of 60% (excluding convertible debenture), a minimum debt service coverage ratio of 1.25, and a minimum adjusted unitholders' equity of $140 million. As at March 31, 2024 and throughout the period, we were in compliance with our financial covenants.

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

Sources & Uses of Cash

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

($000s)	Three months ended	
	31-Mar-2024	31-Mar-2023
Cash flow from (used in) operating activities	**1,861**	(5,072)
Cash flow (used in) from investing activities	**(1,493)**	16,462
Cash flow used in financing activities	**(4,267)**	(40,377)

Operating Activities:

Cash from operating activities was up $6.93 million to $1.86 million in Q1-2024 compared to cash used in operating activities of $5.07 million in Q1-2023. Cash flow from operating activities is significantly impacted by the timing of development and sales activity and swings in working capital.

Operating assets and liabilities tend to fluctuate period over period depending on the timing of payments made and received. In the current quarter, operating assets and liabilities had a negative impact on cash of $9.06 million (Q1-2023: negative impact of $11.05 million) a swing of $1.99 million in the period. The change in our collections on agreements receivable created a swing of $11.28 million with a negative impact on operating activities.

Development activities in the quarter resulted in $0.52 million in net cash inflows, compared to $4.50 million cash outflows in Q1-2023. Tenant incentives and direct leasing costs were down in the quarter at $3.23 million (Q1-2023: $5.00 million).

There were no land purchases in Q1-2024. In Q1-2023 we invested $2.40 million in the purchase of 40.00 acres of raw land in Leduc, AB.

Investing Activities:

Cash used in investing activities was $1.49 million in Q1-2024 (Q1-2023: cash generated was $16.46 million). The largest factor of this swing in investing activity was the Kelowna Business Centre which closed in Q1-2023 for net proceeds of $19.03 million. These funds were used to repay the mortgage on the property, with the remaining cash used to reduce borrowings on our REIT credit facility.

In Q1-2024 we sold two residential units in the US, which generated net cash of $0.94 million (USD$0.69 million) comparative to Q1-2023 we sold three residential units in the US, generating $1.23 million (USD$0.91 million).

We continue to invest in improving our asset base though enhancing projects. Additions to Melcor's properties include active construction on the properties under development and the enhancement to income-generating properties held in the Properties and REIT division. In Q1-2024 we invested $1.54 million in properties under development (Q1-2023: $3.52 million) and invested $0.54 million (Q1-2023: $0.19 million) in our income-generating properties.

Financing Activities:

Cash used in financing activities was $4.27 million in Q1-2024 down from cash used of $40.38 million in Q1-2023.

During the quarter, we made net draws on our credit facility of $4.08 million (Q1-2023: net repayment of $22.23 million). We also had repayment on our general debt of $4.43 million down from Q1-2023 repayment of $14.17 million which included the loan repayment of the Kelowna Business Centre on closing of $8.73 million.

We paid dividends of $0.11 per share in Q1-2024 for a total of $3.36 million compared to $0.16 per share in Q1-2023 for a total of $5.00 million.

Share Data

Melcor has been a public company since 1968 and trades under the symbol “MRD” on the Toronto Stock Exchange. As at March 31, 2024 there were 30,576,837 common shares issued and outstanding, 100,500 options, and 308,175 restricted share units. Each stock option and restricted share unit is convertible to one common share upon exercise or exchange. There is only one class of common shares issued.

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

There are no material changes to the above titled sections at March 31, 2024 in comparison to the December 31, 2023 annual MD&A. Refer to note 3 of the condensed interim consolidated financial statements for changes in accounting policies.

Normal Course Issuer Bid

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

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

To date in 2024, 85,616 shares were purchased for cancellation by Melcor pursuant to the NCIB at a cost of $0.99 million (December 31, 2023 - 712,160 shares purchased at a cost of $8.10 million). In total, Melcor has purchased 797,776 shares for cancellation at a cost of $9.09 million under the current NCIB.

Melcor REIT does not currently have an active NCIB in place.

Quarterly Results

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

	2024	2023				2022		
($000s)	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**
Revenue	49,748	125,134	88,781	65,247	36,077	76,261	61,136	51,044
Net income	12,788	10,311	28,883	21,633	2,153	37,202	23,774	25,908
FFO[1]	13,748	37,562	22,416	17,432	7,045	22,297	16,012	11,853
Per Share ($)								
Basic earnings	0.42	0.34	0.94	0.69	0.07	1.15	0.73	0.79
Diluted earnings	0.42	0.34	0.94	0.69	0.07	1.15	0.73	0.79
FFO basic[2]	0.45	1.21	0.73	0.56	0.23	0.70	0.49	0.36
Book value[2]	40.01	39.45	39.50	38.32	37.63	37.71	35.55	34.78

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

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

Subsequent Events

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

Internal Control over Financial Reporting & Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were material changes to internal control over financial reporting during the quarter ended March 31, 2024, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Non-GAAP and Non-standard Measures

Throughout this MD&A, we refer to terms known as non-GAAP financial performance measures that are not specifically defined in the CPA Canada Handbook or in IFRS 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 that, for FFO, we include an adjustment for amortization of deferred financing fees, which is included in non-cash financing costs.

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

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

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

Properties

($000s)	Three months ended March 31,	
	2024	2023
Segment Earnings	**4,783**	3,321
Fair value adjustment on investment properties	**575**	1,617
General and administrative expenses	**1,248**	1,301
Interest income	**(31)**	(23)
Amortization of tenant incentives	**750**	761
Straight-line rent adjustment	**(256)**	(258)
Divisional NOI	**7,069**	6,719

REIT

($000s)	Three months ended March 31,	
	2024	2023
Segment Earnings	**509**	8,292
Fair value adjustment on investment properties	**9,056**	1,586
General and administrative expenses	**1,020**	779
Interest income	**(14)**	(19)
Amortization of tenant incentives	**959**	1,058
Straight-line rent adjustment	**131**	(174)
Divisional NOI	**11,661**	11,522

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

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

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

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

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

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

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

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

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

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

Consolidated

($000s)	Three months ended March 31,	
	2024	2023
Net income for the period	**12,788**	2,153
Amortization of tenant incentives	**4,138**	2,320
Fair value adjustment on investment properties	**8,833**	2,484
Depreciation on property and equipment	**142**	145
Stock based compensation expense	**296**	230
Non-cash finance costs	**(1,227)**	2,778
Gain on sale of asset	**(47)**	–
Deferred income taxes	**881**	(732)
Fair value adjustment on REIT units	**(12,056)**	(2,333)
FFO	**13,748**	7,045

Properties

($000s)	Three months ended March 31,	
	2024	2023
Segment Earnings	**4,783**	3,321
Fair value adjustment on investment properties	**575**	1,617
Amortization of tenant incentives	**750**	761
Divisional FFO	**6,108**	5,699

REIT

($000s)	Three months ended March 31,	
	2024	2023
Segment Earnings	**509**	8,292
Fair value adjustment on investment properties	**9,056**	1,586
Amortization of tenant incentives	**959**	1,058
Divisional FFO	**10,524**	10,936

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