Management's Discussion & Analysis

May 13, 2025

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, 2025, and management's discussion & analysis (MD&A) and consolidated financial statements for the fiscal year ended December 31, 2024.

The financial statements underlying this MD&A, including 2024 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 13, 2025, 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 2025 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.

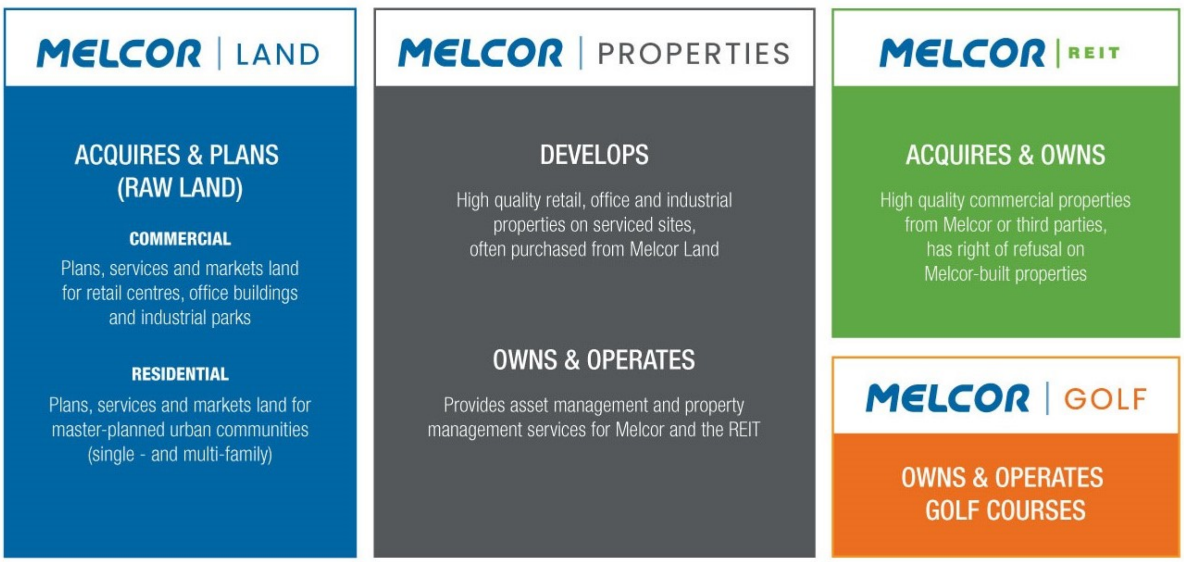
Since 1923, our focus has been the business of real estate. We've built over 170 communities and commercial projects across western Canada since the 1950s and have helped to shape much of Alberta's landscape. As at March 31, 2025, we manage 4.48 million square feet (sf) in commercial real estate assets and 449 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 34 income-producing office (as at March 31, 2025), retail and industrial properties representing 2.76 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.

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 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.

($000s except as noted)	**Three months ended March 31**		
	2025	2024	Change %
Revenue	**50,743**	49,748	2.0
Gross margin[1]	**53.8 %**	47.5 %	13.3
Net income	**5,016**	12,788	(60.8)
Net margin[1]	**9.9 %**	25.7 %	(61.5)
FFO[2]	**13,426**	13,748	(2.3)
Per Share Data ($)			
Basic earnings	**0.17**	0.42	(59.5)
Diluted earnings	**0.16**	0.42	(61.9)
FFO[3]	**0.44**	0.45	(2.2)
Dividends	**0.11**	0.11	–

As at ($000s except share and per share amounts)	**March 31, 2025**	December 31, 2024	Change %
Total assets	**2,036,083**	2,108,553	(3.4)
Shareholders' equity	**1,243,488**	1,242,630	0.1
Total shares outstanding	**30,280,470**	30,367,626	(0.3)
Per Share Data ($)			
Book value [3]	**41.07**	40.92	0.4

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.

MELCOR REIT TRANSACTION (the "Transaction")

Subsequent to quarter end, on April 23, 2025 Melcor and the REIT announced that, in accordance with the previously announced plan of arrangement (the "Plan of Arrangement") and pursuant to the Business Corporations Act (Alberta), (i) Melcor acquired its unowned equity interest (approximately 44.6%) in Melcor REIT Limited Partnership ("REIT LP") for $5.50 per Class A LP Unit in cash consideration (the "REIT LP Sale"); and (ii) the REIT used the proceeds from the REIT LP Sale to repurchase and cancel all of the REIT's outstanding participating trust units (each, a "Unit") for consideration (the "Consideration") of $5.50 per Unit less any applicable withholding taxes (the "Arrangement").

As previously announced, the Arrangement was approved by the REIT's unitholders at a special meeting held on April 11, 2025, and the Court of King's Bench of Alberta granted the final order in respect of the Arrangement on April 16, 2025.

The REIT's Units were de-listed from the Toronto Stock Exchange after the markets closed on April 24, 2025, and the REIT submitted an application to the applicable securities regulators to cease to be a reporting issuer and to terminate its public reporting obligations after the Units were de-listed.

Further details regarding the Transaction is contained in a REIT management information circular which was filed on SEDAR+ under the REIT's profile at www.sedarplus.ca.

FIRST QUARTER HIGHLIGHTS:

Alberta's land development market continued to experience robust growth, building momentum from 2024. Alberta led Canada in housing starts per capita in 2024, with factors such as affordability, population growth and government initiatives contributing to its growth. Looking ahead, while the trajectory remains positive, we anticipate a potential moderation in pace of development in 2025, with potential risks around economic and political uncertainty influencing construction costs. We continue to closely monitor the implications of tariffs on construction materials, as elevated input costs may increase overall building expenses in Alberta, potentially hindering real estate development and contributing to higher housing prices.

To date in 2025, results have yielded a gross margin of 53.8% an increase of 13.3% over 2024 (2024: 47.5%). Net income was down 60.8% or $7.77 million in the period to $5.02 million (Q1-2024: $12.79 million). Net income was significantly impacted by transaction costs included in G&A and recorded through Adjustments related to REIT units, and by non-cash items, including a fair value gain on investment properties of $4.10 million (Q1-2024: fair value loss of $8.83 million) and a fair value loss on REIT units of $2.33 million (Q1-2024: fair value gain of $12.06 million). Management believes that FFO more accurately reflects true operating performance; FFO decreased 2.3% in the period to $13.43 million (Q1-2024: $13.75 million) as a result of higher professional fees associated with the Transaction that were included in G&A expenses, offset by an increase in gross profit and a reduction in cash finance costs.

Throughout the year, we maintained our conservative and disciplined approach to investment and development activities and the management of our assets and liabilities. Property sales in 2024 and early 2025 were focused on pruning non-core assets and with a focus on strengthening both Melcor and the REIT's financial position. In 2024 we sold four income generating properties, and one additional property was sold in 2025 impacting our year-over-year comparatives.

In the past 12 months we have reduced our general debt by 18.6% (Q1-2024: $671.08 million) and since year end general debt is down 10.7% (December 31, 2024: $611.34 million). Our debt to equity ratio on March 31, 2025 was 0.64, down from 0.71 in Q1-2024, and 0.70 at the start of the year. We remain focused on maintaining a strong balance sheet and being prudent with spend in the current inflationary market.

FINANCIAL HIGHLIGHTS

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. Revenue and net income can also fluctuate significantly from quarter to quarter due to the timing of plan 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.

We also continue to strategically assess our assets within our Properties and REIT division, with aim to focus on our core Alberta market. Therefore, within our trailing 24-months, we have disposed of four income generating properties in 2024, and one additional income property in 2025 impacting current and comparative financial results which are adjusted for in our same-asset calculation.

Revenue & Margins:

Consolidated revenue was $50.74 million, up 2.0% over Q1-2024 as a direct result of an increase in land revenues over Q1-2024. This increase was partially offset by lower revenue generated by our Properties and REIT divisions, a result of the dispositions described further below. Gross profit was up 15.7% to $27.31 million in Q1-2025 (Q1-2024: $23.61 million), and our consolidated gross margin was up 13.3% since Q1-2024 to 53.8% .

Our Land division delivered strong results in the first quarter of 2025 and contributed 44.5% of total revenue before intersegment elimination compared to 40.7% in 2024. Our Properties and REIT divisions contributed 55.3% of revenue before intersegment eliminations in 2025 compared to 59.1% in 2024. Revenues from our Properties and REIT divisions were down 5.6% to $28.90 million (Q1-2024: $30.60 million) in Q1-2025. The reduction in overall revenues is directly attributed to the recent property disposals partially offset by revenue generated from newly developed commercial properties developed in our Properties division. Our leasing team had an active quarter and completed 97,246 sf in renewals and an additional 18,146 sf of new leasing to date in 2025. Occupancy levels have decreased slightly over year-end to 85.7% (December 31, 2024: 86.1%).

The US contributed 29.7% of total revenue or $15.05 million in the year, with $12.00 million related to our Land division, and $3.05 million from our Properties division. This compares to Q1-2024 US revenue of $3.62 million (7.3% of total revenue), with $0.19 million from our Land division and $3.43 million from our Properties division.

Net Income & FFO:

Overall, FFO decreased by 2.3% to $13.43 million in Q1-2025 (Q1-2024: $13.75 million). FFO was impacted by an increase in G&A expenses related to the transaction between Melcor and Melcor REIT which closed on April 23, 2025 - subsequent to quarter end. Net of certain non-cash items, G&A expenses were up $1.80 million or 33.3% over Q1-2024, of which $1.17 million relates to higher professional fees incurred as a result of the transaction.

In the first quarter we recorded net income of $5.02 million (Q1-2024: net income of $12.79 million). Net income was significantly impacted by $5.62 million of transaction costs which were included in Adjustments related to REIT units. These costs were considered directly attributable and incremental to the transaction and negatively impacted net income, but have been adjusted for in our FFO calculations. Other non-cash items that have a significant impact on net income include:

- *Fair value adjustments on investment properties*: in Q1-2025, we have recorded fair value gain on investment properties of $4.10 million in the quarter (Q1-2024: fair value loss of $8.83 million) positively affecting our net income in the quarter.
- *Change in the REIT's unit price:* this change has a counter-intuitive impact on net income as an increase in unit value decreases net income. In Q1-2025 the fair value adjustment on REIT units was a loss of $2.33 million compared to a gain of $12.06 million in Q1-2024 contributing a swing of $14.39 million negatively affecting our net income in the quarter.
- *Non-cash financing costs*: in Q1-2025, we have recorded non-cash financing costs of $1.49 million compared to non-cash financing recoveries of $1.23 million in Q1-2024, negatively affecting our net income in the quarter.

These non-cash gains and losses 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 revenue was up 10.5% or $2.22 million in Q1-2025 to $23.28 million (Q1-2024: $21.07 million). The increase was attributed to our US region, which contributed $12.00 million to revenues from a 44.00 acre paper lot sale which closed in the first quarter. In our Canadian market, we had an increase in revenue generated from single-family lot sales of $3.16 million over Q1-2024, with 80 single-family lots sold in the first quarter (Q1-2024: 66 single-family lots). Edmonton contributed our largest sales volume with 58 single-family lot sales in Q1-2025 (Q1-2024: 38 singe-family lot sales). These increases were largely offset by a decrease in revenue generated from commercial and multi-family acres, which was anomalously high in Q1-2024 at $12.90 million from the sale of 22.20 acres, all in our Canadian regions. No multi-family or commercial land was sold in Q1-2025.

Our **Properties** division currently has 81,755 sf under active development or awaiting lease-up on four projects (Chestermere Station, Woodbend Market, Winterburn Point, and Greenwich). Construction and leasing activity resulted in a $1.06 million fair value gain in the period.

Our **Properties and REIT** divisions accounted for 56.9% of revenue, after intersegment eliminations compared to 61.5% in Q1-2024. Occupancy decreased over year-end to 85.7% (December 31, 2024: 86.1%) and was down over last year (Q1-2024: 87.4%). During the quarter we completed 97,246 sf in renewals and an additional 18,146 sf of new leasing.

Our **Golf** division, had revenues of $0.10 million in Q1-2025 (2024: $0.14 million). All of our Edmonton, AB courses opened subsequent to the period. Our Black Mountain course located in Kelowna, BC opened on March 26, 2025.

ASSET DISPOSITIONS

We continue to focus on pruning non-core assets within our portfolio.

2025 Dispositions:

- Melcor Crossing, a REIT held retail building located in Grande Prairie, AB for net proceeds of $47.63 million
- 3 residential units located at the Edge at Grayhawk in Phoenix, AZ for net proceeds of $1.22 million (US$0.85 million)

2024 Dispositions:

- 14 residential units located at the Edge at Grayhawk in Phoenix, AZ for net proceeds of $6.14 million (US$4.47 million)
- 104th Street Building, an office building located in Edmonton, AB for net proceeds of $2.69 million ($0.90 million at JV%)
- Lethbridge Industrial, a REIT held industrial building located in Lethbridge, AB for net proceeds of $4.34 million
- Parliament Place, a REIT held office building located in Regina, SK for net proceeds of $4.84 million
- Richter Street Building, a REIT held office building located in Kelowna, BC for net proceeds of $7.48 million

In 2025, Melcor will focus on divesting select assets to generate cash for the purpose of reducing borrowings on our line of credit. This credit facility was utilized to repay the REIT's maturing debentures in late 2024 and fund the repurchase of the approximately 44.6% unowned equity interest in the REIT in April 2025. Asset sales will be conducted with careful consideration of long-term shareholder value.

SHAREHOLDER HIGHLIGHTS

We continue to focus on returning value to our shareholders:

Melcor Developments:

- We repurchased 87,156 shares for cancellation pursuant to the NCIB at a cost of $1.10 million in Q1-2025.
- On May 13, 2025, we declared a quarterly dividend of $0.11 per share, payable on June 30, 2025, to shareholders of record on June 16, 2025. The dividend is an eligible dividend for Canadian tax purposes.

Melcor REIT:

- No cash distributions have been made since January 2024.
- On April 23, 2025 Melcor acquired its unowned equity interest in the REIT for $5.50 per Unit. The REIT used the proceeds to repurchase and cancel all of the REIT's outstanding participating trust units.
- On April 24, 2025 the REIT's Units were delisted from the TSX and the REIT applied to cease to be a reporting issuer.

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		
	2025	2024	Change %
Net income for the period	**5,016**	12,788	(60.8)
Amortization of tenant incentives	**1,488**	4,138	(64.0)
Fair value adjustment on investment properties	**(4,098)**	8,833	(146.4)
Depreciation on property and equipment	**117**	142	(17.6)
Stock based compensation expense	**316**	296	6.8
Non-cash finance costs (recoveries)	**1,486**	(1,227)	(221.1)
Gain on sale of asset	**(1)**	(47)	(97.9)
Deferred income taxes	**1,149**	881	30.4
Fair value adjustment on REIT units	**2,333**	(12,056)	(119.4)
Transaction costs on REIT units acquisition	**5,620**	–	nm
FFO[1]	**13,426**	13,748	(2.3)
FFO per share[2]	**$0.44**	$0.45	(2.2)

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 down 2.3% or $0.32 million to $13.43 million in the period (Q1-2024: $13.75 million).

Our Q1-2025 financial results were significantly impacted by costs incurred as a result of the transaction between Melcor and Melcor REIT. Costs considered directly attributable and incremental to the transaction were included in the adjustment on REIT Units in the amount of $5.62 million, and have been adjusted out of our FFO calculation above.

Gross profit increased 15.7% or $3.70 million compared to Q1-2024. This increase includes non-cash items such as amortization of tenant incentives and straight-line rent adjustments which can swing period over period as new leases commence. Net of non-cash items, gross profit was up 3.8% or $1.05 million which had a positive impact on FFO.

G&A expenses in Q1-2025 were up 30.7% or $1.80 million over Q1-2024, of which $1.17 million related to additional professional fees incurred as a result of the transaction that were not directly attributable to the transaction. These costs had a negative impact on FFO in the quarter.

Other factors that impacted FFO in the period include an increase in interest income, which was up 81.4% or $0.44 million over Q1-2024, and cash finance costs that were down 4.6% or $0.35 million over Q1-2024.

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 owns and holds 34 income-producing properties (as at March 31, 2025); 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)	**2025**	2024	**2025**	2024	**2025**	2024	**2025**	2024
Revenue	**23,283**	21,066	**11,368**	11,696	**17,530**	18,905	**102**	143
Portion of total revenue %	**45 %**	41 %	**22 %**	23 %	**34 %**	36 %	**– %**	– %
Cost of sales	**(10,533)**	(12,716)	**(5,153)**	(5,121)	**(7,724)**	(8,334)	**(552)**	(565)
Gross profit	**12,750**	8,350	**6,215**	6,575	**9,806**	10,571	**(450)**	(422)
Gross margin %[1]	**55 %**	40 %	**55 %**	56 %	**56 %**	56 %	**(441)%**	(295)%
Portion of total margin[1]	**45 %**	33 %	**22 %**	26 %	**35 %**	42 %	**(2)%**	(2)%
General and administrative expense	**(1,833)**	(1,931)	**(1,511)**	(1,248)	**(926)**	(1,020)	**(384)**	(355)
Fair value adjustment on investment properties	**—**	—	**2,951**	(575)	**712**	(9,056)	**–**	–
Gain on sale of assets	**—**	—	**–**	–	**–**	–	**1**	47
Interest income	**813**	468	**33**	31	**34**	14	**4**	3
Segment earnings (loss)	**11,730**	6,887	**7,688**	4,783	**9,626**	509	**(829)**	(727)

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.

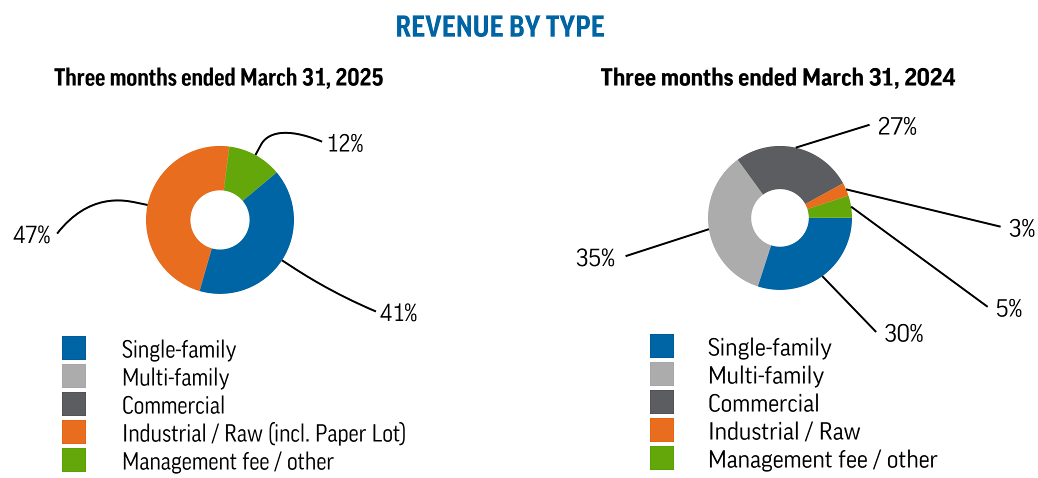
Land

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



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	
	2025	2024
Canada Sales data: (including joint ventures at 100%)[1]		
Single-family sales (number of lots)	**80**	66
Gross average revenue per single-family lot ($)	**182,469**	161,730
Multi-family sales (acres)	**–**	12.20
Gross average revenue per multi-family acre ($)	**–**	1,082,213
Commercial sales (acres)	**–**	8.55
Gross average revenue per commercial land acre ($)	**–**	1,318,246
Industrial sales (acres)	**–**	1.45
Gross average revenue per industrial land acre ($)	**–**	470,000
Other land sales - raw, other (acres)	**21.77**	–
Gross average revenue per other land acre ($)	**50,691**	–
US Sales data:		
Other land sales - raw (paper lots), other	**44.00**	–
Gross average revenue per paper lot ($)	**223,701**	–
Divisional results: (including joint ventures at Melcor's interest)[1]		
Revenue ($000s)	**23,283**	21,066
Earnings ($000s)	**11,730**	6,887

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.

Revenues were up 10.5% or $2.22 million to $23.28 million in the period (Q1-2024: $21.07 million), and earnings were up 70.3% or $4.84 million to $11.73 million in the period (Q1-2024: $6.89 million). Gross margin in our Land division is strongly impacted by the mix of both product type and location of inventory sold, and can vary period over period. Gross margin increased over Q1-2024 by 54.8% (Q1-2024: 39.6%) as a direct result of the paper-lot sales occurring in our US region at a margin of 69.4%.

Our US region successfully closed on a 44.00 acre paper-lot sale in the first quarter, contributing $12.00 million to revenues and $8.18 million to earnings in the period. There were no sales in our US region in the Q1-2024 comparative period. Subsequent to quarter end, on April 10, 2025 we sold an additional 154 acres of land in the Greater Pheonix area, AZ for total revenue of $49.36 million ($35.22 million USD).

When focusing on our Canadian market only, revenue was down 45.9% or $9.59 million to $11.29 million (Q1-2024: $20.88 million). In Q1-2024 we sold 22.20 acres of commercial and multi-family land for revenue of $12.90 million; no commercial or multi-family land was sold in Q1-2025. The decrease in revenue from acre sales was partially offset by an increase in revenue from single-family homes sales, up $3.16 million as we sold 80 single-family lot sales compared to 66 single-family lot sales in Q1-2024.

Our Edmonton region had the largest volume of single-family lot sales in Q1-2025 at 58 lots, up from 38 lots in Q1-2024. In our Red Deer region we closed on 15 single-family lot sales in the quarter, consistent with 2024 (Q1-2024: 15). The timing of plan registrations can have a significant impact on when revenue is recorded and often occurs in the later half of the calendar year as construction is completed in our communities.

The average sale price on single-family lots increased 12.8% in the quarter over Q1-2024. 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. As of Q1-2025, we have not registered any new phases to date (Q1-2024: two commercial and multi-family phases in one community).

Regional Sales Analysis

A summary of our lot and acre sales (excluding raw land / paper lot sales) by region is as follows:

	Three months ended March 31, 2025			Three months ended March 31, 2024		
(including joint ventures at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Other (Acres)**	Single- family (Lots)	Multi-family (Acres)	Other (Acres)
Edmonton Region	**58**	**–**	**–**	38	9.87	10.00
Red Deer	**15**	**–**	**–**	15	–	–
Calgary Region	**2**	**–**	**–**	11	–	–
Lethbridge	**4**	**–**	**–**	2	2.33	–
Kelowna	**1**	**–**	**–**	–	–	–
United States	**–**	**–**	**–**	–	–	–
	80	**–**	**–**	66	12.20	10.00

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, 2025				Three months ended March 31, 2024			
	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	**436**	**34.54**	**94.68**	**1**	606	49.83	113.48	1
New developments	**–**	**–**	**–**	**–**	55	4.80	8.55	–
Internal sales	**–**	**–**	**–**	**–**	–	–	–	–
Sales	**(80)**	**–**	**–**	**–**	(66)	(12.20)	(10.00)	–
	356	**34.54**	**94.68**	**1**	595	42.43	112.03	1

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.

There have been no raw land purchases to date in 2025 or in 2024. In Q1-2025, we sold 21.77 acres of raw land in Mount Robson, BC for $1.10 million. There were no sales of raw land in Q1-2024.

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. We 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 4.48 million sf of income-producing commercial GLA and 449 residential units.

Our commercial property portfolio is primarily comprised of properties developed and transferred internally along with properties acquired from third parties elsewhere. 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, average base rent, and development activities:

(as at, at JV%, except as noted)	**March 31, 2025**	December 31, 2024
Commercial properties GLA under management (sf, total)	**4,479,219**	4,761,750
Properties owned and managed (sf)	**1,235,170**	1,235,170
Properties managed (sf)	**3,244,049**	3,526,580
Residential units managed	**449**	452
Occupancy - CAD	**90.6 %**	90.2 %
Occupancy - US	**78.1 %**	78.2 %
Weighted Average Base Rent (per sf) - CAD	**$28.10**	$28.02
Weighted Average Base Rent (per sf) - US	**$22.41**	$21.70
Fair value adjustment on investment properties ($000)	**1,889**	(9,349)
Commercial properties under development (sf, total)		
Number of properties completed	**–**	5
Properties completed (sf)	**–**	95,558
Number of properties under active construction	**4**	4
Properties under active construction (sf)	**81,755**	81,755
Fair value recognized on properties under development ($000s)	**1,062**	3,806

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

($000s and at JV%, except as noted)	**Three months ended March 31**	
	2025	2024
Revenue (total)	**11,368**	11,696
Canadian properties	**6,744**	6,436
US properties	**3,052**	3,433
Management fees	**1,336**	1,575
Parking lots and other assets	**236**	252
Net operating income (NOI)[1]	**7,016**	7,069
Funds from operations[1]	**5,287**	6,108
Funds from operations per share[2]	**$0.17**	$0.20

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

Our Canadian property portfolio continues to grow via completions from internal development. At the end of Q1-2025, we had 4 properties under active construction or awaiting lease-up (81,755 sf), consistent with year-end. New properties completed in the current and comparative periods added $0.37 million to NOI in Q1-2025 (Q1-2024: $0.30 million) as detailed in same asset NOI table following.

Occupancy of our Canadian properties owned by Melcor was 90.6%, up from 89.1% at Q1-2024, and 90.2% at year-end. Committed occupancy was 92.0%, up from 89.9% at Q1-2024, and down slightly from 92.9% at year-end. Canadian weighted average base rent was up $0.50 per sf to $28.10 per sf compared to Q1-2024 and up $0.08 per sf from year-end.

Fair value gains on properties under active development are recognized throughout the development process until the property is completed and recognized at fair market value. From new development we generated $1.06 million in fair value gains compared to $0.05 million in Q1-2024. Our 2025 fair value gains relate to development activities in our Winterburn Point development located in West Edmonton.

A breakdown of our fair value adjustments on properties under development by region is as follows:

($000s and at JV%, except as noted)	Three months ended March 31	
	2025	2024
Northern Alberta	**1,062**	46
Southern Alberta	**–**	–
	1,062	46

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	
	2025	2024
Same-asset NOI[1]	**4,024**	3,843
Third party disposals	**2**	11
Properties recently completed construction	**373**	298
NOI[1]	**4,399**	4,152
Amortization of tenant incentives	**(267)**	(437)
Straight-line rent adjustment	**105**	259
Gross profit	**4,237**	3,974

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

Gross profit was up 6.6% or $0.26 million to $4.24 million compared to Q1-2024. NOI increased by 5.9% or $0.25 million compared to Q1-2024. Recently completed development projects contributed an additional $0.37 million in NOI compared to $0.30 million in Q1-2024.

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 4.7% in the quarter compared to Q1-2024.

US properties

Revenue on US properties was down 11.1% to $3.05 million compared to $3.43 million in Q1-2024. NOI and same-asset NOI were down 14.9% or $0.16 million to $0.92 million compared to $1.08 million in Q1-2024.

Our US properties have seen a reduction in occupancy to 78.1% since year-end (December 31, 2024: 78.2%) and since Q1-2024 (83.1%). Additionally, we have sold 3 units at our Edge at Greyhawk in the period and sold an additional 14 units in 2024 which has contributed to the declining revenues and NOI over the comparative period.

WABR increased by 3.3% to $22.41 since year-end (December 31, 2024: $21.70), and increased 2.7% since Q1-2024.

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	
	2025	2024
Same-asset NOI[1]	**921**	1,082
Third party disposals	**–**	–
NOI[1]	**921**	1,082
Foreign currency translation	**401**	377
Amortization of tenant incentives	**(283)**	(313)
Straight-line rent adjustment	**(356)**	(3)
Gross profit	**683**	1,143

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

Management fees & other

Management fees on development is comprised of fees paid by joint arrangement partners and are 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 Q1-2025 were $0.15 million up from $0.03 million in Q1-2024.

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 Q1-2025 were $1.18 million down from $1.55 million in Q1-2024.

Revenue from parking stalls and other assets was down 6.3% in the quarter to $0.24 million from $0.25 million in Q1-2024. These revenues are ancillary to our business and tend to fluctuate from period to period.

FFO

FFO was down 13.4% to $5.29 million in Q1-2025 from $6.11 million Q1-2024, with segment earnings up 60.7% to $7.69 million from $4.78 million in Q1-2024. Segment earnings are impacted by swings fair value adjustment on investment properties. To date in 2025 we have recorded gains of $2.95 million in the period compared to a $0.58 million loss in Q1-2024.

Fair Value of Investment Portfolio

The fair value of our income properties portfolio increased by $5.35 million over December 31, 2024. The components leading to the change in fair value include:

- fair value gains increased our portfolio value by $3.39 million and was comprised of $2.95 million gain on specific property valuations, and $0.44 million intersegment fair value adjustments increasing the overall fair value gain.
- the sale of 3 residential units at Edge at Grayhawk reducing the portfolio value by $1.22 million.
- property improvements and direct leasing costs of $0.10 million, increasing fair value.
- development costs and capitalized borrowings on development increasing the portfolio by $3.79 million.
- foreign currency translation loss of $0.08 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 asset type is as follows:

($000s)	**March 31, 2025**			December 31, 2024		
	Investment Properties	**Properties Under Development**	**Total**	Investment Properties	Properties Under Development	Total
Alberta- all assets	**401**	**1,062**	**1,463**	(4,321)	3,806	(515)
US - residential	**245**	**–**	**245**	1,274	–	1,274
US - commercial	**1,243**	**–**	**1,243**	(6,302)	–	(6,302)
	1,889	**1,062**	**2,951**	(9,349)	3,806	(5,543)

Investment properties were valued by Melcor's internal valuation team as at March 31, 2025. Our qualified external valuation professionals valued 5 of the 26 legal phases with a fair value of $44.26 million. This resulted in fair value gain of $1.89 million in Q1-2025 recorded as fair value adjustments on investment properties in the statements of income and comprehensive income. In 2024 our qualified external valuation professionals valued 22 of the 26 legal phases with a fair value of $289.33 million which resulted in a fair value loss of $9.35 million for the year.

The gains recognized on our US residential properties are correlated with the recent sales of units at the Edge at Greyhawk, along tenant incentives recognized on the properties which do not affect fair value. Our US commercial properties continue to face challenges, as a result of the increase in capitalization rates on office properties in our Arizona and Colorado region. The increase in capitalization rate is a correlated to the continued interest rate pressures and higher market risk across the industry.

REIT

The REIT has an established and diversified portfolio in western Canada. As at March 31, 2025, we owned 34 income-producing office, retail and industrial properties representing 2.76 million square feet (sf) in gross leasable area (GLA). These high-quality properties feature stable occupancy and a diversified mix of tenants.

As at March 31, 2025 we have a controlling 55.4% interest in the REIT through ownership of all Class B LP Units (December 31, 2024: 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.

Subsequent to quarter end, on April 23, 2025 Melcor and the REIT announced that, in accordance with the previously announced Plan of Arrangement and pursuant to the Business Corporations Act (Alberta), Melcor acquired its unowned equity interest (approximately 44.6%) in Melcor REIT Limited Partnership ("REIT LP"). Refer to page 3 for additional details on the Transaction.

Operating results

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

(as at, at JV%, except as noted)	March 31, 2025	December 31, 2024
Commercial properties GLA under management (sf, total)	**2,763,919**	3,046,450
Fair value of portfolio[1]	**660,617**	650,621
Occupancy	**85.8 %**	86.5 %
Weighted average base rent (per sq. ft.)	**$16.88**	$17.19

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	
	2025	2024
Rental revenue	**17,530**	18,905
NOI[1]	**10,754**	11,661
Same-asset NOI[1] *(see calculation following)*	**9,992**	10,279
Fair value adjustment on investment properties	**712**	(9,056)
Funds from operations[1]	**9,852**	10,524
Funds from operations per share[2]	**$0.32**	$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 revenues were down 7.3% or $1.38 million to $17.53 million over Q1-2024. The largest factors reducing rental revenues were a reduction in base rent of 7.8% or $0.95 million and recovery revenues of 7.6% or $0.55 million primarily related to the recent property disposals excluded in the current and comparative periods.

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 in Q1-2025, we have completed 4,272 sf of new leasing and 72,023 sf in renewals and holdovers for an 85.8% retention rate. Occupancy was down at 85.8% (December 31, 2024: 86.5%) with commitment on an additional 34,539 sf bringing committed occupancy up to 87.6%. In Q1-2025, WABR was down $0.31 per sf at $16.88 compared to year-end (December 31, 2024: $17.19) and was down $0.13 ($17.01 per sf) compared to Q1-2024.

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

($000s except as noted)	Three months ended March 31	
	2025	2024
Same-asset NOI[1]	**9,992**	10,279
Disposals	**762**	1,382
NOI before adjustments	**10,754**	11,661
Amortization of tenant incentives	**(938)**	(959)
Straight-line rent adjustment	**(10)**	(131)
Net rental income	**9,806**	**10,571**

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 exclude assets sold in the current and comparative periods. Assets excluded in our same-asset NOI calculation include Richter Street (sold Q2-2024), Lethbridge Industrial (sold Q4-2024), Parliament Place (sold Q4-2024) and Melcor Crossing (sold Q1-2025). NOI was down 7.8% over Q1-2024, with same-asset NOI was down 2.8% over Q1-2024.

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 down 6.4% or $0.67 million to $9.85 million in the period (Q1-2024: $10.52 million) The reduction in FFO is a direct result of a lower gross profit as a direct result of the recent property disposals in the current and comparative periods.

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 2025, with the exception of Black Mountain located in Kelowna, BC which opened March 26, 2025.

	Ownership Interest	2025	2024
		Season opened	Season opened
Managed by Melcor:			
Lewis Estates (Edmonton)	60%	**April 15**	April 10
The Links (Spruce Grove)	100%	**April 15**	April 11
Black Mountain (Kelowna)	100%	**March 26**	March 22
Managed by a Third Party:			
Jagare Ridge (Edmonton)	50%	**April 24**	April 22

General & Administrative Expense

G&A expenses were up $1.80 million in the quarter to $7.65 million (Q1-2024: $5.85 million).

Our Q1-2025 G&A was impacted significantly by costs associated with the transaction between Melcor and the REIT as described on page 3. Included in our Corporate division G&A was $1.17 million in additional professional fee expenses related to the transaction that were not directly attributable to the transaction. Excluding costs related to the transaction, G&A was $6.48 million in Q1-2025, compared to $5.85 million in Q1-2024.

Our remaining G&A expense categories remain on budget, and fairly stable over the prior year. G&A as a percent of total revenues were 12.8% compared to 11.8% in Q1-2024.

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, 2025 (Q1-2024: 23.0%). The most significant adjustments impacting the 2025 effective tax rate was the fair value gain on investment properties, which is not subject to tax. Other items that impact the effective tax rate include permanent differences related to revaluation adjustments on REIT units, transaction costs, and the non-taxable portion of REIT income (after removal of fair value adjustments on Class B units).

Liquidity & Capital Resources

The following table represents selected information as at March 31, 2025, compared with December 31, 2024.

As at ($000s except as noted)	March 31, 2025	December 31, 2024
Cash & cash equivalents	**59,472**	54,338
Restricted cash	**1,006**	1,329
Accounts receivable	**17,543**	17,853
Agreements receivable	**124,341**	157,412
Revolving credit facilities	**51,868**	85,422
Accounts payable and accrued liabilities	**53,916**	52,119
Total assets	**2,036,083**	2,108,553
Total liabilities	**792,595**	865,923
Debt to equity ratio[1]	**0.64**	0.70

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;
- 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, and the issuance of common shares. 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 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, or preferred shares; 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 $137.63 million as at March 31, 2025 (December 31, 2024: $128.38 million). Our total general debt outstanding was $546.03 million as at March 31, 2025 (December 31, 2024: $611.34 million).

A summary of our debt is as follows:

As at ($000s)	March 31, 2025	December 31, 2024
Melcor - revolving credit facilities	**38,988**	60,568
REIT - revolving credit facility	**12,880**	24,854
Project specific financing	**15,653**	14,119
Debt on investment properties	**478,505**	511,798
General debt	**546,026**	611,339

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, 2025 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 $140.00 million. As at March 31, 2025 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	
	March 31, 2025	March 31, 2024
Cash flow from operating activities	**31,215**	1,861
Cash flow from (used in) investing activities	**45,452**	(1,493)
Cash flow used in financing activities	**(71,538)**	(4,267)

Operating Activities:

Cash from operating activities was up $29.35 million to $31.22 million in Q1-2025 (Q1-2024: $1.86 million). Cash flow from operating activities is significantly impacted by the timing of development and sales activity and swings in working capital.

Agreements receivable can fluctuate period over period depending on the timing of payments received. The change in our collections on agreements receivable had a positive impact to cash flows of $33.07 million in Q1-2025 (Q1-2024: negative impact of $0.08 million).

Development activities in Q1-2025 contributed net cash outflows of $4.28 million (Q1-2024: cash inflows of $0.52 million). Payment of tenant incentives and direct leasing costs were down $2.41 million in the quarter to $0.82 million (Q1-2024: $3.23 million). These costs can vary period over period, based on the timing of renewals and new leases signed in the trailing periods.

Investing Activities:

Cash from investing activities resulted in net cash inflows of $45.45 million in Q1-2025 (Q1-2024: cash outflow of $1.49 million).

In the period, we sold one property classified as assets held for sale at year-end, located in Grande Prairie, AB, for a purchase price of $48.00 million less transaction costs resulting in net proceeds on sale of $47.38 million. Proceeds from the sale were used to repay the outstanding principal balance on the mortgage of $29.71 million with remaining proceeds used to pay down our credit facilities. Deposits of $0.25 million, classified as restricted cash at year end, were also received on closing.

We also sold 3 residential units at our Edge complex located in Phoenix, AZ for net proceeds of $1.22 million (USD$0.85 million).

We continue to invest in improving our asset base though enhancing projects. Additions to our investment properties include active construction on the new developments and the enhancement to income-generating properties held in the Properties and REIT divisions. In Q1-2025 we invested $3.79 million in properties under development (Q1-2024: $1.54 million), and $0.10 million invested in our income-generating properties (Q1-2024: $0.54 million).

Financing Activities:

Cash used in financing activities was $71.54 million in Q1-2025, up from $4.27 million in Q1-2024.

In Q1-2025 we closed on the sale of Melcor Crossing, located in Grande Prairie, AB, with proceeds received on closing were used to pay down the outstanding mortgage of $29.71 million, included in general debt, with remaining cash used to reduce borrowings on our credit facilities.

Net repayments on our credit facility in the quarter were $33.55 million compared to net borrowings of $4.08 million in Q1-2024. This swing is largely the result to the asset sale noted above and cash received on agreements receivables collections being applied to our facilities.

Also, we received proceeds from general debt of $1.53 million on project specific financing at our commercial development at Winterburn Point, located in Edmonton, AB.

We paid dividends of $0.11 per share in both Q1-2025 and Q1-2024 for a total of $3.33 million and $3.36 million, respectively.

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, 2025 there were 30,280,470 common shares issued and outstanding and 336,559 restricted share units. Each and restricted share unit is convertible to one common share upon 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, 2025 in comparison to the December 31, 2024 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, 2024 Melcor commenced a Normal Course Issuer (NCIB) which allows us to purchase up to 1,525,527 shares for cancellation, representing approximately 5% of the issued and outstanding shares up to a maximum daily limit of 1,552 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, 2025.

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.

During the three months ended March 31, 2025, 87,156 shares were purchased for cancellation by Melcor pursuant to the NCIB at a cost of $1.10 million (December 31, 2024: 356,703 shares purchased at a cost of $4.33 million). Share capital was reduced by $0.21 million (December 31, 2024: $0.78 million) and retained earnings was reduced by $0.89 million (December 31, 2024: $3.55 million). Retained earnings was also reduced by $0.02 million (December 31, 2024: $0.07 million) for the tax on net share buyback.

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.

	2025	2024				2023		
($000s)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	50,743	170,538	59,508	69,707	49,748	125,134	88,781	65,247
Net income (loss)	5,016	32,384	(34,984)	23,340	12,788	10,311	28,883	21,633
FFO[1]	13,426	43,436	16,507	20,115	13,748	37,562	22,416	17,432
Per Share ($)								
Basic earnings (loss)	0.17	1.07	(1.15)	0.76	0.42	0.34	0.94	0.69
Diluted earnings (loss)	0.16	1.05	(1.15)	0.76	0.42	0.34	0.94	0.69
FFO basic[2]	0.44	1.44	0.54	0.65	0.45	1.21	0.73	0.56
Book value[2]	41.07	40.92	39.56	40.81	40.01	39.45	39.50	38.32

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 adjustments 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 15 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, 2025, 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	
	2025	2024
Segment Earnings	**7,688**	4,783
Fair value adjustment on investment properties	**(2,951)**	575
General and administrative expenses	**1,511**	1,248
Interest income	**(33)**	(31)
Amortization of tenant incentives	**550**	750
Straight-line rent adjustment	**251**	(256)
Divisional NOI	**7,016**	7,069

REIT

($000s)	Three months ended March 31	
	2025	2024
Segment Earnings	**9,626**	509
Fair value adjustment on investment properties	**(712)**	9,056
General and administrative expenses	**926**	1,020
Interest income	**(34)**	(14)
Amortization of tenant incentives	**938**	959
Straight-line rent adjustment	**10**	131
Divisional NOI	**10,754**	11,661

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, directly attributable transaction costs to the REIT Units acquisition, 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	
	2025	2024
Net income for the period	**5,016**	12,788
Amortization of tenant incentives	**1,488**	4,138
Fair value adjustment on investment properties	**(4,098)**	8,833
Depreciation on property and equipment	**117**	142
Stock based compensation expense	**316**	296
Non-cash finance costs (recoveries)	**1,486**	(1,227)
Gain on sale of asset	**(1)**	(47)
Deferred income taxes	**1,149**	881
Fair value adjustment on REIT units	**2,333**	(12,056)
Transaction costs on REIT units acquisition	**5,620**	–
FFO	**13,426**	13,748

Properties

($000s)	Three months ended March 31	
	2025	2024
Segment Earnings	**7,688**	4,783
Fair value adjustment on investment properties	**(2,951)**	575
Amortization of tenant incentives	**550**	750
Divisional FFO	**5,287**	6,108

REIT

($000s)	Three months ended March 31	
	2025	2024
Segment Earnings	**9,626**	509
Fair value adjustment on investment properties	**(712)**	9,056
Amortization of tenant incentives	**938**	959
Divisional FFO	**9,852**	10,524

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.