

Management's Discussion & Analysis

August 6, 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 June 30, 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 August 6, 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.

TABLE OF CONTENTS

Our Business	2	Liquidity & Capital Resources	16
Second Quarter Highlights	3	Financing	17
Funds from Operations	6	Sources & Uses of Cash	17
Divisional Results	6	Share Data	18
Land	7	Off Balance Sheet Arrangements, Contractual Obligations, Business Environment & Risks, Critical Accounting Estimates, Changes in Accounting Policies	18
Properties	10	Normal Course Issuer Bid	18
REIT	13	Quarterly Results	19
Golf	15	Subsequent Events	19
General & Administrative Expense	15	Internal Control over Financial Reporting & Disclosure Controls	19
Income Tax Expense	16	Non-GAAP and Non-standard Measures	19

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 4.79 million square feet (sf) in commercial real estate assets and 460 residential rental units. We have been a public company since 1968 (TSX: MRD).

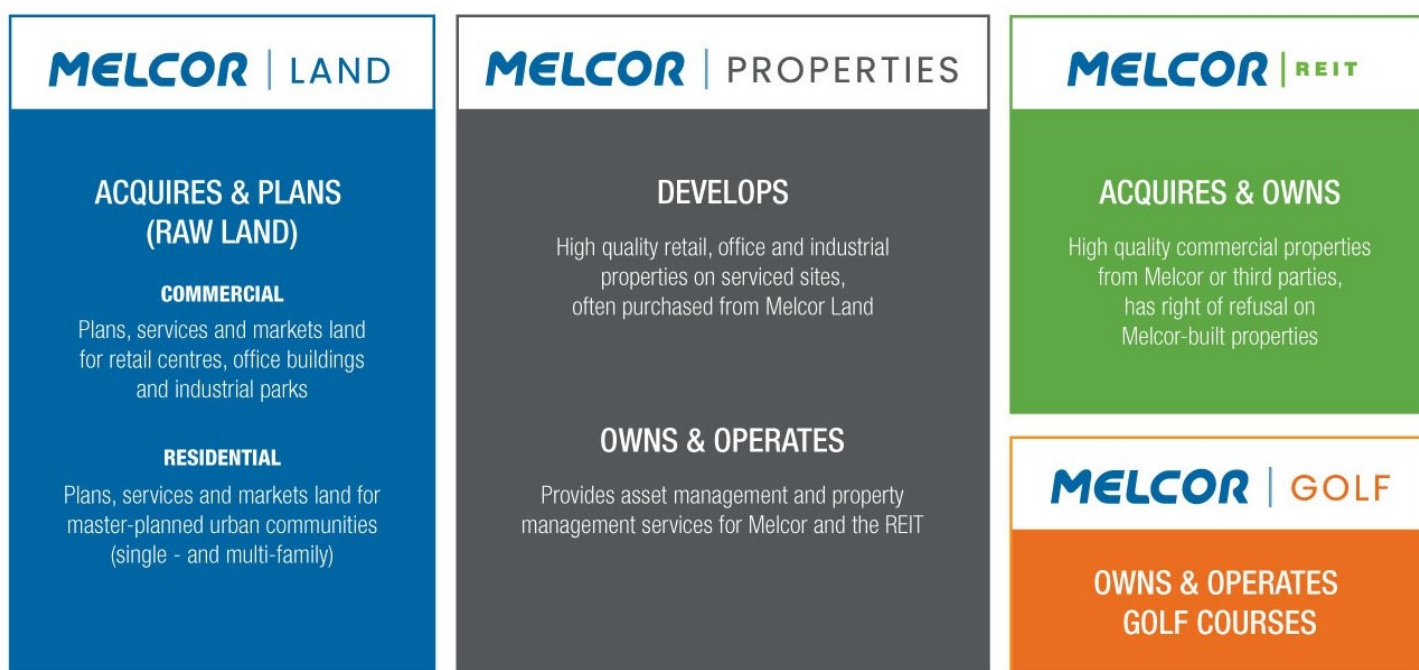
We are committed to building communities that enrich quality of life - communities where people live, work, shop and play.

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 37 income-producing office, retail and industrial properties representing 3.12 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 through 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		

Second 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 June 30			Six months ended June 30		
	2024	2023	Change %	2024	2023	Change %
Revenue	69,707	65,247	6.8	119,455	101,324	17.9
Gross margin ¹	50.3 %	51.9 %	(3.1)	49.1 %	51.4 %	(4.5)
Net income	23,340	21,633	7.9	36,128	23,786	51.9
Net margin ¹	33.5 %	33.2 %	0.9	30.2 %	23.5 %	28.5
FFO ²	20,115	17,432	15.4	33,863	24,477	38.3
Per Share Data (\$)						
Basic earnings	0.76	0.69	10.1	1.18	0.76	55.3
Diluted earnings	0.76	0.69	10.1	1.18	0.76	55.3
FFO ³	0.65	0.56	16.1	1.10	0.78	41.0
Dividends	0.11	0.16	(31.3)	0.22	0.32	(31.3)

As at (\$000s except share and per share amounts)	30-Jun-2024	31-Dec-2023	Change %
Total assets	2,086,842	2,097,473	(0.5)
Shareholders' equity	1,244,016	1,209,578	2.8
Total shares outstanding	30,479,398	30,662,453	(0.6)
Per Share Data (\$)			
Book value ⁽³⁾	40.81	39.45	3.4

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 2024, results have yielded a gross margin of 49.1% down slightly over 2023 at 51.4%. Net income was up \$1.71 million in the period and is up \$12.34 million year-to-date. 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 15.4% in the period to \$20.12 million (Q2-2023: \$17.43 million) and up 38.3% to \$33.86 million year-to-date (2023: \$24.48 million).

Our Land division continued to produce strong results throughout the second quarter, with revenue up 12.9% to \$37.23 million in the period and up 41.5% to \$58.30 million year-to-date. Segment earnings were up 9.1% to \$14.98 million in the quarter and up 39.8% to \$21.87 million year-to-date. In Q2-2024 our Land division contributed 47.2% of our total revenue before intersegment eliminations (Q2-2023: 39.1%). Single-family lot sales were up to 325 lots sold in Q2-2024 (Q2-2023: 197) which contributed to the increase in revenue and earnings. Additionally, our land division sold 23.30 acres in multi-family and other land sales, a significant increase over 5.18 acres sold in Q2-2023.

Our Income Properties (Properties and REIT divisions) contributed 49.0% of revenue before intersegment eliminations in Q2-2024 compared to 56.0% in Q2-2023. Our leasing team has been actively pursuing and securing new leases across all asset classes, successfully achieving 100,425 sf of new leasing year-to-date. Occupancy levels over have increased over year-end to 86.5% (December 31, 2023 - 86.2%). Overall revenue from our Income Properties was steady at \$29.16 million (2023: \$28.93 million). Revenue and NOI generated from our income properties 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. On May 10, 2024, we closed on the sale of a 29,000 sf office property in our REIT division located in Kelowna, BC for gross proceeds of \$7.80 million, resulting in net proceeds of \$7.48 million.

As of June 30, 2024, we have classified four retail properties as held for sale, including three located in Regina, SK, and one located in Grande Prairie, AB outside our core Alberta market with a combined 481,000 sf. These assets were listed for sale due to their geographic location and is consistent with our strategic decision to focus on our core Alberta markets and on debt repayment. Net cash from the sale of these assets is expected to be used to pay down the revolving credit facility and reduce our overall debt. These properties are all held in Melcor REIT.

In the past 12 months have reduced our general debt, which includes our mortgages and credit facilities, by 5.65% (Q2-2023: \$699.38 million). Our debt to equity ratio on June 30, 2024 was 0.68, down from 0.78 in Q2-2023, and 0.73 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

Revenue was up 6.8% to \$69.71 million in Q2-2024 (Q2-2023: \$65.25 million) and up 17.9% to \$119.46 million year-to-date (2023: \$101.32 million), with gross profit up 3.6% to \$35.09 million in Q2-2024 (Q2-2023: \$33.87 million) and up 12.7% to \$58.70 million year-to-date (2023: \$52.10 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 15.4% to \$20.12 million in Q2-2024 (Q2-2023: \$17.43 million) and up 38.3% to \$33.86 million year-to-date (2023: \$24.48 million). The increase in FFO is a direct result of the increase in revenue in our Land division.

Net income was up 7.9% to \$23.34 million in Q2-2024 (Q2-2023: \$21.63 million) and up 51.9% to \$36.13 million year-to-date (2023: \$23.79 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 Q2-2024 the fair value adjustment on REIT units was a gain of \$5.83 million compared to a gain of \$7.00 million in Q2-2023. To date in 2024, we have recorded gains of \$17.37 million (2023: gains of \$7.78 million) as the REIT unit price has declined. 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 revenue was up 12.9% or \$4.24 million in the period to \$37.23 million (Q2-2023: \$32.99 million), and up 41.5% or \$17.09 million to \$58.30 million year-to-date (2023: \$41.21 million). Revenue growth was attributed to an increase in single-family lot sales to 325 (2023 - 195), and 23.30 acres sold of multi-family, commercial and industrial land sales (2023: 5.18 acres). Edmonton contributed our largest sales volume with 151 single-family lot sales and 19.87 acres sold year-to-date, and our Calgary more than doubling its single-family home sales over 2023 with 114 lot sales year-to-date (2023: 51) and 1.10 acres sold year-to-date.

Our **Properties** division currently has 120,596 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 \$0.82 million gain in the period and \$0.87 million gain year-to-date. Additionally, our Properties division has completed construction on one retail building year-to-date, 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 41.8% of revenue, after intersegment eliminations compared to 44.3% in Q2-2023. Occupancy increased over year-end to 86.5% (December 31, 2023: 86.2%) and was down over last year (Q2-2023: 87.8%).

Our **Golf** division, was stable over 2023 with 49,346 rounds played to date (2023: 52,322), and year-to-date revenues of \$5.44 million (2023: \$5.41 million). As of April 22, all our golf courses have been opened.

SHAREHOLDER HIGHLIGHTS

We continue to return value to our shareholders:

Melcor Developments:

- We have repurchased 183,055 shares for cancellation pursuant to the NCIB at a cost of \$2.12 million to date in 2024.
- On May 14, 2024, we declared a quarterly dividend of \$0.11 per share paid on June 28, 2024, to shareholders of record on June 14, 2024. The dividend is an eligible dividend for Canadian tax purposes.
- On August 6, 2024, we declared a quarterly dividend of \$0.11 per share, payable on September 27, 2024, to shareholders of record on September 13, 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 in January 2024. There were no distributions made during the quarter.
- 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 REIT will continue to provide updates to the market as they become available.

REVENUE & MARGINS

Consolidated revenue was up 6.8% to \$69.71 million in the quarter (Q2-2023: \$65.25 million), and up 17.9% to \$119.46 million year-to-date (2023: \$101.32 million). Revenue increases are the result of higher revenue in our Land division in the quarter which is up 12.9% over Q2-2023, and up 41.5% year-to-date.

Land accounted for 47.2% (2023: 39.1%) of total revenue, before intersegment eliminations. Land revenue was up 12.9% to \$37.23 million in the quarter and up 41.5% to \$58.30 million year-to-date. Earnings were up 9.1% to \$14.98 million over Q2-2023, and up 39.8% to \$21.87 million year-to-date. Revenues can vary quarter over quarter due to the timing of lot sales and plan registrations. In Q2-2024 multi-family and commercial sales were up \$6.11 million and \$7.84 million respectively over Q2-2023. Our Land division saw a decrease in its margins to 42.3% (Q2-2023: 44.3%). 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 49.0% of year-to-date revenue, before intersegment eliminations compared with 56.0% in 2023, with revenues stable in the period and year-to-date at \$29.16 million and \$59.76 million respectively (Q2-2023: \$28.93 million; 2023: \$58.75 million). Our Income Properties maintained a steady gross margin of 57.2% (Q2-2023: 57.8%). Gross profit generated from this segment was up slightly to \$59.76 million compared to \$58.75 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 50.3% in Q2-2024 (Q2-2023: 51.9%) and 49.1% year-to-date (2023: 51.4%). 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 cyclicity 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 June 30			Six months ended June 30		
	2024	2023	Change %	2024	2023	Change %
Net income for the period	23,340	21,633	7.9	36,128	23,786	51.9
Amortization of tenant incentives	42	1,949	(97.8)	4,180	4,269	(2.1)
Fair value adjustment on investment properties	(862)	4,780	(118.0)	7,971	7,264	9.7
Depreciation on property and equipment	423	426	(0.7)	565	571	(1.1)
Stock based compensation expense	285	248	14.9	581	478	21.5
Non-cash finance costs	1,100	(2,363)	(146.6)	(127)	415	(130.6)
Gain on sale of asset	(6)	(7)	(14.3)	(53)	(7)	657.1
Deferred income taxes	1,626	(678)	(339.8)	2,507	(1,410)	(277.8)
Fair value adjustment on REIT units	(5,833)	(8,556)	(31.8)	(17,889)	(10,889)	64.3
FFO¹	20,115	17,432	15.4	33,863	24,477	38.3
FFO per share²	\$0.65	\$0.56	16.1	\$1.10	\$0.78	41.0

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 15.4% or \$2.68 million in the quarter compared to Q2-2023, and up 38.3% or \$9.39 million year-to-date. The increase in FFO was a direct result of a higher gross profit, up 3.6% or \$1.22 million in the quarter, and up 12.7% or \$6.60 million year-to-date.

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 37 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:

(\$000s except as noted)	Land		Properties		REIT		Golf	
	Three months June 30		Three months June 30		Three months June 30		Three months June 30	
	2024	2023	2024	2023	2024	2023	2024	2023
Revenue	37,234	32,993	11,299	10,809	17,858	18,123	5,296	5,339
Portion of total revenue %	52 %	49 %	16 %	16 %	25 %	27 %	7 %	8 %
Cost of sales	(20,913)	(17,965)	(4,654)	(4,313)	(7,451)	(7,510)	(2,183)	(2,178)
Gross profit	16,321	15,028	6,645	6,496	10,407	10,613	3,113	3,161
Gross margin % ¹	44 %	46 %	59 %	60 %	58 %	59 %	59 %	59 %
Portion of total margin ¹	45 %	43 %	18 %	18 %	29 %	30 %	9 %	9 %
General and administrative expense	(1,991)	(1,795)	(1,366)	(1,312)	(1,014)	(736)	(1,094)	(936)
Fair value adjustment on investment properties	—	—	1,225	2,470	(958)	(7,830)	—	—
Gain on sale of assets	—	—	—	—	—	—	6	7
Interest income	650	494	31	29	12	11	3	5
Segment earnings	14,980	13,727	6,535	7,683	8,447	2,058	2,028	2,237

(\$000s except as noted)	Land		Properties		REIT		Golf	
	Six months June 30		Six months June 30		Six months June 30		Six months June 30	
	2024	2023	2024	2023	2024	2023	2024	2023
Revenue	58,300	41,211	22,995	21,638	36,763	37,113	5,439	5,409
Portion of total revenue %	47 %	39 %	19 %	21 %	30 %	35 %	4 %	5 %
Cost of sales	(33,629)	(22,972)	(9,775)	(8,926)	(15,785)	(15,862)	(2,748)	(2,676)
Gross profit	24,671	18,239	13,220	12,712	20,978	21,251	2,691	2,733
Gross margin % ¹	42 %	44 %	57 %	59 %	57 %	57 %	49 %	51 %
Portion of total margin ¹	40 %	33 %	21 %	22 %	34 %	39 %	4 %	5 %
General and administrative expense	(3,922)	(3,637)	(2,614)	(2,613)	(2,034)	(1,515)	(1,449)	(1,329)
Fair value adjustment on investment properties	—	—	650	853	(10,014)	(9,416)	—	—
Gain on sale of assets	—	—	—	—	—	—	53	7
Interest income	1,118	1,039	62	52	26	30	6	5
Segment earnings	21,867	15,641	11,318	11,004	8,956	10,350	1,301	1,416

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.

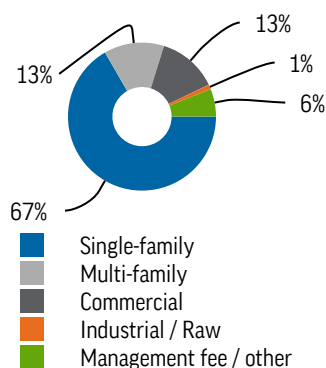
Master-planned mixed-use residential communities comprise the majority of Land's portfolio. We create efficient and sustainable urban communities by establishing an overall vision for each community and the amenities that will make it a desirable place to live. Residential lots and multi-family parcels 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.

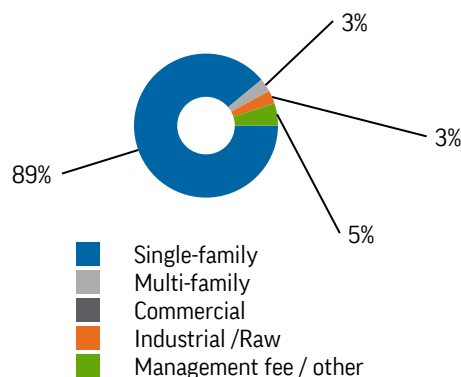
Sales Activity

REVENUE BY TYPE

Six months ended June 30, 2024



Six months ended June 30, 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 June 30		Six months ended June 30	
	2024	2023	2024	2023
Canada Sales data: (including joint ventures at 100%)¹				
Single-family sales (number of lots)	259	113	325	195
Gross average revenue per single-family lot (\$)	185,535	190,414	180,701	174,460
Multi-family sales (acres)	–	–	12.20	3.73
Gross average revenue per multi-family acre (\$)	–	–	1,082,213	950,000
Commercial sales (acres)	1.10	–	9.65	–
Gross average revenue per commercial land acre (\$)	2,000,000	–	1,395,959	–
Industrial sales (acres)	–	1.45	1.45	1.45
Gross average revenue per industrial land acre (\$)	–	460,000	470,000	460,000
Other land sales - raw, other (acres)	–	4.52	–	4.52
Gross average revenue per other land acre (\$)	–	168,850	–	168,850
US Sales data:				
Single family sales (number of lots)	–	84	–	84
Gross average revenue per single-family lot (\$)	–	188,884	–	188,884
Divisional results: (including joint ventures at Melcor's interest)¹				
Revenue (\$000s)	37,234	32,993	58,300	41,211
Earnings (\$000s)	14,980	13,727	21,867	15,641

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 second quarter with revenues up 12.9% to \$37.23 million and up 41.5% to \$58.30 million year-to-date (Q2-2023: \$32.99 million; 2023: \$41.21 million). Year-to-date single-family homes sales increased to 325 lots from 195 lots in 2023, as a direct result of more lot sales in our Calgary and Red Deer regions in 2024 compared to 2023. Multi-family, commercial and other land sales were also up with 23.30 acres sold in 2024 compared to 9.70 acres in 2023. Divisional earnings were \$14.98 million in the quarter, up 9.1% compared to Q2-2023 and \$21.87 million year-to-date, up 39.8% over 2023.

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 decrease in the period to 43.8% and 42.3% year-to-date (Q2-2023: 44.3%; 2023: 44.3%).

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, are 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 259 single-family lots (Q2-2023: 113), and 325 single-family lots year-to-date (2023: 195) in our Canadian markets. Our Edmonton region sold the largest volume of single-family lot in Q2-2024 at 113 bringing the total to 151 year-to-date (Q2-2023: 56; 2023: 134). Our Calgary region sold 103 single-family lot sales in the quarter and has sold 114 single-family lot year-to-date, more than double its 2023 results (Q2-2023: 51; 2023: 51). Red Deer also had a strong quarter with 36 single-family lot sales in the quarter and 51 single-family lot sales year-to-date (Q2-2023: 5; 2023: 7). 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.

No lots were sold in our US markets in the current period and year-to-date. In Q2-2023 we sold 84 single-family lots in our US region. Our US region currently only has one active land development project, Harmony located in Denver, CO, which can lead to more inconsistent results.

In Q2-2024 we sold 1.10 acres of commercial and industrial land bringing our total to 11.10 acres year-to-date. Included in these results are 10.00 acres within our Edmonton region including 8.55 acres of commercial development within Mattson development (Edmonton, AB) and 1.45 acres within our Telford Lake Industrial development and 1.10 acres in our Calgary region within our Greenbriar development.

We have also sold 12.20 acres of multi-family land year-to-date, 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 decreased 2.6% in the quarter, however, is up 3.6% year-to-date compared to 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. To date in 2024, we have registered three new phases located in one community in our Edmonton region (2023: four phases in two communities).

Regional Sales Analysis

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

<i>(including joint ventures at 100%)</i>	Three months ended			Three months ended		
	June 30, 2024			June 30, 2023		
	Single-family (Lots)	Multi-family (Acres)	Other (Acres)	Single-family (Lots)	Multi-family (Acres)	Other (Acres)
Edmonton Region	113	–	–	56	–	1.45
Red Deer	36	–	–	5	–	–
Calgary Region	103	–	1.10	51	–	–
Lethbridge	4	–	–	–	–	–
Kelowna	3	–	–	1	–	–
United States	–	–	–	84	–	–
	259	–	1.10	197	–	1.45

<i>(including joint ventures at 100%)</i>	Six months ended			Six months ended		
	June 30, 2024			June 30, 2023		
	Single-family (Lots)	Multi-family (Acres)	Other (Acres)	Single-family (Lots)	Multi-family (Acres)	Other (Acres)
Edmonton Region	151	9.87	10.00	134	3.73	1.45
Red Deer	51	–	–	7	–	–
Calgary Region	114	–	1.10	51	–	–
Lethbridge	6	2.33	–	–	–	–
Kelowna	3	–	–	3	–	–
United States	–	–	–	84	–	–
	325	12.20	11.10	279	3.73	1.45

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:

	Six months ended June 30, 2024				Six months ended June 30, 2023			
	CANADA			USA	CANADA			USA
<i>(Including joint ventures at 100%)</i>	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	714	58.19	116.33	235
New developments	64	4.80	8.55	–	169	3.73	10.22	–
Redevelopment	–	–	–	–	–	–	–	–
Internal sales	–	–	–	–	–	–	–	–
Sales	(325)	(12.20)	(11.10)	–	(195)	(3.73)	(1.45)	(84)
	345	42.43	110.93	1	688	58.19	125.10	151

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

Raw land inventory

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

In Q2-2024 and year-to-date no raw land has been purchased or sold.

In the first half of 2023, we purchased 80.00 acres purchased of raw land in Acheson, AB for \$2.40 million and 40.00 acres of land in Leduc, AB for \$2.40 million. In Q2-2023 we sold 4.52 acres of raw land to government bodies for \$0.76 million.

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 4.79 million sf of income-producing commercial GLA and 460 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:

<i>(as at, at JV%, except as noted)</i>	30-Jun-2024	31-Dec-2023
Commercial properties GLA under management (sf, total)	4,785,364	4,771,105
Properties owned and managed (sf)	1,200,965	1,169,055
Properties managed (sf)	3,584,399	3,602,050
Residential units managed	460	466
Occupancy - CAD	91.0 %	84.1 %
Occupancy - US	77.9 %	80.5 %
Weighted Average Base Rent (per sf) - CAD	\$27.51	\$28.84
Weighted Average Base Rent (per sf) - US	\$21.52	\$22.16
Fair value adjustment on investment properties (\$000)	(219)	(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)	120,596	130,925
Fair value recognized on properties under development (\$000s)	869	4,984

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

<i>(\$000s and at JV%, except as noted)</i>	Three months ended June 30		Six months ended June 30	
	2024	2023	2024	2023
Revenue (total)	11,299	10,809	22,995	21,638
Canadian properties	6,406	5,822	12,842	11,565
US properties	3,141	3,392	6,574	6,857
Management fees	1,472	1,334	3,047	2,740
Parking lots and other assets	280	261	532	476
Net operating income (NOI) ¹	7,166	6,662	14,235	13,381
Funds from operations ¹	5,946	5,679	12,054	11,378
Funds from operations per share ²	\$0.20	\$0.18	\$0.40	\$0.35

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. There were no properties completed in Q2-2024, and one building (31,800 sf) was transferred in our Woodbend development earlier in the year. In 2023, no properties were transferred in the second quarter or year-to-date. In addition to the properties completed, we have four buildings totaling 120,596 sf in active development at the end of Q2-2024 (Q2-2023: three buildings totaling 104,284 sf in active development).

New properties completed in the current and comparative years (since January 1, 2023) have added \$1.08 million to NOI in the quarter and \$1.86 million year-to-date in 2024 (Q2-2023 - \$0.47 million; 2023: \$1.00 million) as detailed in same asset NOI table below. With 120,596 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 91.0% at June 30, 2024 (December 31, 2023 - 84.1%). Committed occupancy is 91.2% (December 31, 2023 - 86.3%). Weighted average base rent was down \$1.33 per sf to \$27.51 per sf (December 31, 2023 - \$28.84 per sf).

Fair value adjustments on properties under active development are recognized throughout the development process until the property is recognized at fair market value. From development we generated \$0.82 million in fair value gains in Q2-2024 and, \$0.87 million in fair value gains year-to-date. In 2023 we generated \$1.04 million in fair value gains in Q2-2024 and \$1.36 million in fair value gains year-to-date.

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

(\$000s and at JV%, except as noted)	Three months ended June 30		Six months ended June 30	
	2024	2023	2024	2023
Northern Alberta	1,231	718	1,277	718
Southern Alberta	(408)	321	(408)	643
	823	1,039	869	1,361

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 June 30		Six months ended June 30	
	2024	2023	2024	2023
Same-asset NOI ¹	3,452	3,497	6,830	6,840
Third party disposals	–	32	–	67
Properties recently completed construction	1,082	473	1,856	997
NOI ¹	4,534	4,002	8,686	7,904
Amortization of tenant incentives	(215)	(244)	(652)	(781)
Straight-line rent adjustment	59	280	318	526
Gross profit	4,378	4,038	8,352	7,649

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

Gross profit was up 8.4% or \$0.34 million over Q2-2023 and 9.2% or \$0.70 million year-to-date. NOI increased by 13.3% or \$0.53 million over Q2-2023 and 10% or \$0.78 million year-to-date.

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 down 1.3% in the quarter compared to Q2-2023 and has remained stable year-to-date.

US properties

Revenue on US properties was down 7.4% to \$3.14 million compared to Q2-2023 and is down 4.1% to \$6.57 million year-to-date. Contributing factors include a reduction in WABR by 2.9% to \$21.52 since year-end (December 31, 2023: \$22.16) and a reduction in occupancy to 77.9% since year-end (80.5%) and since Q2-2023 (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 June 30		Six months ended June 30	
	2024	2023	2024	2023
Same-asset NOI ¹	855	1,007	1,937	2,107
Third party disposals	–	–	–	(13)
NOI ¹	855	1,007	1,937	2,094
Foreign currency translation	316	348	693	731
Amortization of tenant incentives	(421)	(221)	(734)	(445)
Straight-line rent adjustment	56	21	53	33
Gross profit	806	1,155	1,949	2,413

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

Due to the reduction in revenue paired with the inflationary pressures reflected in the higher operational expenditures, gross profit on our US properties was down 30.2% in the period to \$0.81 million and 19.2% to \$1.95 million over 2023. NOI decreased 15.1% to \$0.86 million in the period and 7.5% to \$1.94 million year-to-date. Same-asset NOI saw a similar reduction of 15.1% or \$0.15 million to \$0.86 million and a reduction of 8.1% or \$0.17 million to \$1.94 million year-to-date.

Management fees & other

Management fees on development are 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 Q2-2024 were \$0.10 million and \$0.13 million year-to-date (Q2-2023: \$0.05 million; 2023: \$0.07 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 Q2-2024 were \$1.37 million and \$2.92 million year-to-date (Q2-2023: \$1.29 million; 2023: \$2.68 million)

Revenue from parking stalls and other assets was up 7.3% in the quarter to \$0.28 million and up 11.8% to \$0.53 million year-to-date 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 up 4.7% to \$5.95 million in Q2-2024 (Q2-2023: \$5.68 million) and up 5.9% to \$12.05 million (2023: \$11.38 million) year-to-date. Segment earnings were down 14.9% to \$1.15 million and up 2.9% to \$11.32 million. Segment earnings can be impacted by swings fair value adjustment on investment properties, down \$1.25 million in the period and down \$0.20 million year-to-date, and amortization of tenant incentives of down \$0.17 million in the period and down \$0.16 million year-to-date.

Fair Value of Investment Portfolio

The fair value of our income properties portfolio increased by \$12.70 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 \$10.70 million
- fair value gain of \$1.17 million comprised of \$0.22 million loss on specific property valuations, and \$1.39 million intersegment fair value adjustments increasing the fair value gain.
- the sale of 6 residential units at Edge at Grayhawk reducing the portfolio value by \$2.73 million.
- property improvements and direct leasing costs of \$0.21 million, increasing fair value
- foreign currency translation gain of \$3.34 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)	June 30, 2024			December 31, 2023		
	Investment Properties	Properties Under Development	Total	Investment Properties	Properties Under Development	Total
Alberta - all assets	(837)	869	32	(5,020)	4,984	(36)
US - residential	364	–	364	916	–	916
US - commercial	254	–	254	(14,664)	–	(14,664)
	(219)	869	650	(18,768)	4,984	(13,784)

Investment properties were valued by Melcor's internal valuation team as at June 30, 2024. Our qualified external valuation professionals valued 6 of the 27 legal phases with a fair value of \$85.33 million. This resulted in fair value loss of \$0.22 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 37 income-producing office, retail and industrial properties representing 3.12 million square feet (sf) in gross leasable area (GLA). These high-quality properties feature stable occupancy and a diversified mix of tenants.

As at August 6, 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 Consolidated 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:

<i>(as at, at JV%, except as noted)</i>	30-Jun-2024	31-Dec-2023
Commercial properties GLA under management (sf, total)	3,121,673	3,150,646
Fair value of portfolio ¹	673,718	691,782
Occupancy	86.9 %	87.6 %
Weighted average base rent (per sq. ft.)	\$17.05	\$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:

<i>(\$000s except as noted)</i>	Three months ended June 30		Six months ended June 30	
	2024	2023	2024	2023
Rental revenue	17,858	18,123	36,763	37,113
NOI ¹	11,482	11,689	23,143	23,211
Same-asset NOI ¹ (see calculation following)	9,765	9,870	19,616	19,640
Fair value adjustment on investment properties	(958)	(7,830)	(10,014)	(9,416)
Funds from operations ¹	10,338	10,881	20,862	21,817
Funds from operations per share ²	\$0.34	\$0.35	\$0.68	\$0.70

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 1.5% in the period and 0.9% year-to-date. Lower recovery revenue, and swings in SLR adjustments (non-cash) were the contributing factors of this reduction in the period and year-to-date. SLR adjustment is significantly impacted by timing and commencement of new leases and can fluctuate period over period.

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 5.2% in the period and 2.8% year-to-date. Direct operating expenses were down 0.8% in the period and down 0.5% year-to-date over Q2-2023. 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. Overall occupancy has also declined comparable to year-end (87.6%) and Q2-2023 (87.2%) also contributing to lower amounts recovered from tenants.

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 321,836 sf of new and renewed leasing (including holdovers). In 2024, we have 427,668 sf of our portfolio maturing, including month-to-month tenants.

As at June 30, 2024, we have retained 88.7% (271,250 sf) of expiring leases and have received commitment on an additional 17,025 sf of future renewals representing a committed occupancy of 87.4%. As of Q2-2024, we completed 50,586 sf in new leases. Richter Street, a 29,000 sf office asset was removed from both total GLA and closing occupancy upon sale that occurred May 10, 2024.

Property taxes and utilities were down 7.6% in the quarter and 4.8% year-to-date. These reductions are a combination of the disposal of assets in our recent periods and the efforts of our Properties team mitigating the increases seen within the market. On a same-asset basis down 8.2% in the quarter and down 4.5% year-to-date. 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 Q2-2023. Additionally, due to some property tax assessment reviews completed during the year, our Properties team was able to reduce property taxes on specific properties, contributing to the overall decrease comparative to 2023. Utility costs are also impacted by weather conditions which can vary significantly period over period.

Operating expenses also include maintenance projects, which can vary significantly period over period depending on property needs and weather conditions. Overall, we have seen increases in costs as a result of inflationary pressures. In Q2-2024, operating expenses were up 6.9% in the period and 4.4% year-to-date. On a same-asset basis, operating expenses were up 6.7% in the period and 6.8% year-to-date.

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

(\$000s except as noted)	Three months ended June 30		Six months ended June 30	
	2024	2023	2024	2023
Same-asset NOI ¹	9,765	9,870	19,616	19,640
Disposals	1,717	1,819	3,527	3,571
NOI before adjustments	11,482	11,689	23,143	23,211
Amortization of tenant incentives	(933)	(993)	(1,892)	(2,051)
Straight-line rent adjustment	(142)	(83)	(273)	91
Net rental income	10,407	10,613	20,978	21,251

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 (sold Q1-2023), Richter Street (sold Q2-2024), and assets classified as held for sale (under IFRS Accounting Standards) which includes three retail properties located in Regina SK, and one retail property located in Grande Prairie AB. NOI was down 1.8% in the period and steady year-to-date over 2023, with same-asset NOI was down 1.1% in the period and steady year-to-date over 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 down 5.0% to \$10.34 million in the period (Q2-2023: \$10.88 million), and down 4.4% to \$20.86 million (2023: \$21.82 million). The reduction in FFO is a direct result of a lower gross profit and higher general and administrative costs in the period and year-to-date.

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.

Our earlier start to the season, was offset by unfavourable weather conditions in the beginning of the season resulting in a decrease of rounds played in the year of 5.7% to 49,346 over 2023 at 52,322. Additionally, as many of our golf courses are within the Edmonton area, we noted a trend resulting from the region's home team, the Edmonton Oilers, making it to the Stanley Cup finals and a reduction of rounds played during this time.

Our revenues were steady at \$5.30 million in the period (Q2-2023: \$5.34 million), and \$5.44 million year-to-date (2023: \$5.41 million).

All courses opened during the second quarter of 2024, with the exception of Black Mountain which opened March 22, 2024.

Ownership Interest	2024		2023		
	Season opened	Rounds of Golf	Season opened	Rounds of Golf	
<i>Managed by Melcor:</i>					
Lewis Estates (Edmonton)	60%	April 10	11,706	April 19	13,429
The Links (Spruce Grove)	100%	April 11	11,719	April 20	12,978
Black Mountain (Kelowna)	100%	March 22	17,113	April 4	15,629
<i>Managed by a Third Party:</i>					
Jagare Ridge (Edmonton)	50%	April 22	8,808	April 25	10,286

General & Administrative Expense

G&A expenses were up \$1.01 million or 17.6% in the quarter to \$6.71 million (Q2-2023 \$5.71 million) and up \$1.35 million or 12.1% to \$12.57 million year-to-date (2023: \$11.21 million).

Our Q2-2024 and year-to-date G&A was impacted by higher G&A in our REIT division, up 37.8% or \$0.28 million in the quarter, and up 34.3% or \$0.52 million year-to-date. This increase is associated with the establishment of the Independent Committee and commencement of the strategic review process in February 2024 which have resulted in additional legal and financial advisory costs and additional fees paid to the Independent 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 2023.

Our land division also saw an increase in G&A expenses, increasing 10.9% or \$0.20 million in the period, and 7.8% or \$0.29 million year-to-date. The increase in the land division G&A can be directly attributed to the increase in overall revenues in both the period and year-to-date over 2023. G&A as a percent of total revenues were down to 10.5% comparative to 11.1% in 2023.

Management continues to prudently monitor and manage controllable expenses.

Income Tax Expense

The statutory tax rate is 23.0% for the three and six months ended June 30, 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 June 30, 2024, compared with December 31, 2023.

<i>As at (\$000s except as noted)</i>	30-Jun-2024	31-Dec-2023
Cash & cash equivalents	39,395	34,690
Restricted cash	1,779	1,719
Accounts receivable	9,750	10,631
Agreements receivable	117,729	126,070
Revolving credit facilities	102,371	109,836
Accounts payable and accrued liabilities	38,219	48,257
Total assets	2,086,842	2,097,473
Total liabilities	842,826	887,895
Debt to equity ratio ¹	0.68	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 REIT units when declared by the board of trustees and paying dividends when declared by our board of directors and.

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 \$115.60 million as at June 30, 2024 (December 31, 2023: \$111.94 million). Our total general debt outstanding was \$659.84 million as at June 30, 2024 (December 31, 2023: \$670.17 million).

A summary of our debt is as follows:

As at (\$'000s)	30-Jun-2024	31-Dec-2023
Melcor - revolving credit facilities	71,482	71,976
REIT - revolving credit facility	30,889	37,860
Project specific financing	8,155	7,724
Debt on investment properties and golf course assets	503,651	507,463
REIT - convertible debentures	45,665	45,151
General debt	659,842	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 June 30, 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 June 30, 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		Six months ended	
	30-Jun-2024	30-Jun-2023	30-Jun-2024	30-Jun-2023
Cash flow from (used in) operating activities	25,375	10,934	27,236	5,862
Cash flow (used in) from investing activities	57	(2,636)	(1,436)	13,826
Cash flow used in financing activities	(16,310)	(13,533)	(20,577)	(53,910)

Operating Activities:

Cash from operating activities was up \$14.44 million to \$25.38 million in Q2-2024 and up \$21.37 million to \$27.24 million year-to-date (Q2-2023: \$10.93 million; 2023: \$5.86 million). Cash flow from operating activities is significantly impacted by the timing of development and sales activity and swings in working capital.

Operating assets and liabilities tend to fluctuate period over period depending on the timing of payments made and received. In the current quarter, operating assets and liabilities had a negative impact on cash of \$0.18 million (Q2-2023: positive impact of \$2.44 million), and had a negative impact on cash of \$9.25 million year-to-date (2023: negative cash impact of \$8.61 million). The change in our collections on agreements receivable contributed a positive impact to cash flows of \$8.42 million in Q2-2024 (Q2-2023: \$3.87 million) and \$8.34 million (2023: \$15.07 million).

Development activities in the quarter contributed net cash outflows of \$2.28 million (Q2-2023: \$9.65 million), and \$1.77 million of net cash outflows year-to-date (2023: \$14.14 million). Payment of tenant incentives and direct leasing costs were down in the quarter at \$0.71 million (Q2-2023: \$0.66 million) and \$3.94 million year-to-date (2023: \$5.66 million).

There were no land purchases in Q2-2024 or year-to-date. In Q2-2023 we invested \$2.40 million for the purchase of 80 acres of land in Acheson, AB and an additional \$2.40 million in the purchase of 40.00 acres of raw land in Leduc, AB in Q1-2023.

Investing Activities:

Cash from investing activities was \$0.06 million in Q2-2024 (Q2-2023: cash outflow of \$2.64 million) and cash outflows of \$1.44 million year-to-date (2023: cash generated was \$13.83 million).

Included in investment activities are net proceeds on the sale of assets held for sale. In Q2-2024 we sold our Richter Street property located in Kelowna, BC for net proceeds of \$7.48 million. Net cash of \$2,405 was used to reduce borrowings on our credit facility with the remaining proceeds of \$5.08 million being held in a short term investments and being used as additional security on a different investment property. In Q1-2023, we sold the Kelowna Business Centre for net proceeds of \$19.03 million. Proceeds from the sale were used to repay the outstanding principal balance on the mortgage of \$8.73 million with the remaining cash being used to reduce borrowings on our credit facility.

Net proceeds from disposal of investment properties includes the sale of residential units at our Edge complex located in Phoenix, AZ. In the quarter we sold four units for net proceeds of \$1.78 million and to date in 2024 we have sold six units for net proceeds of \$2.73 million. In

Q2-2023 we sold four residential units in the US, generating net proceeds of \$1.90 million (USD\$1.40 million), and one retail property in Lethbridge, AB for \$3.27 million. Included in the year-to-date number are an additional three residential units sold in Q1-2023 (seven units year-to-date) for net proceeds of \$3.13 million (USD\$2.32 million).

We continue to invest in improving our asset base through 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 Q2-2024 we invested \$3.60 million in properties under development (Q2-2023: \$7.01 million) and \$5.14 million year-to-date (2023: \$10.53 million). In Q2-2024 we invested \$0.55 million (Q2-2023: \$0.63 million) in our income-generating properties, and \$1.09 million year-to-date.

Financing Activities:

Cash used in financing activities was \$16.31 million in Q2-2024 down from \$13.53 million in Q2-2023.

During the quarter, we made net repayments on our credit facility of \$11.55 million (Q2-2023: net draws of \$24.00 million). We also had repayment on our general debt of \$11.28 million down from Q2-2023 repayment of \$47.10 million which included the loan repayment of the Kelowna Business Centre, and Chauncey Property (US).

We paid dividends of \$0.11 per share in Q2-2024 for a total of \$3.36 million, and \$6.72 million year-to-date. In Q2-2023 we paid \$0.16 per share for a total of \$4.95 million, and \$9.95 million year-to-date.

Share Data

Melcor has been a public company since 1968 and trades under the symbol "MRD" on the Toronto Stock Exchange. As at June 30, 2024 there were 30,479,398 common shares issued and outstanding, 100,500 options, and 302,052 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 June 30, 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, 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 six months ended June 30, 2024, 183,055 shares were purchased for cancellation by Melcor pursuant to the NCIB at a cost of \$2.12 million (December 31, 2023 - 712,160 shares purchased at a cost of \$8.10). Share capital was reduced by \$0.40 million (December 31, 2023 - \$1.56 million) and retained earnings was reduced by \$1.72 million (December 31, 2023 - \$6.54 million).

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.

(\$000s)	2024		2023				2022	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	69,707	49,748	125,134	88,781	65,247	36,077	76,261	61,136
Net income	23,340	12,788	10,311	28,883	21,633	2,153	37,202	23,774
FFO ¹	20,115	13,748	37,562	22,416	17,432	7,045	22,297	16,012
Per Share (\$)								
Basic earnings	0.76	0.42	0.34	0.94	0.69	0.07	1.15	0.73
Diluted earnings	0.76	0.42	0.34	0.94	0.69	0.07	1.15	0.73
FFO basic ²	0.65	0.45	1.21	0.73	0.56	0.23	0.70	0.49
Book value ²	40.81	40.01	39.45	39.50	38.32	37.63	37.71	35.55

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 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 June 30, 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 June 30		Six months ended June 30	
	2024	2023	2024	2023
Segment Earnings	6,535	7,683	11,318	11,004
Fair value adjustment on investment properties	(1,225)	(2,470)	(650)	(853)
General and administrative expenses	1,366	1,312	2,614	2,613
Interest income	(31)	(29)	(62)	(52)
Amortization of tenant incentives	636	466	1,386	1,227
Straight-line rent adjustment	(115)	(300)	(371)	(558)
Divisional NOI	7,166	6,662	14,235	13,381

REIT

(\$000s)	Three months ended June 30		Six months ended June 30	
	2024	2023	2024	2023
Segment Earnings	8,447	2,058	8,956	10,350
Fair value adjustment on investment properties	958	7,830	10,014	9,416
General and administrative expenses	1,014	736	2,034	1,515
Interest income	(12)	(11)	(26)	(30)
Amortization of tenant incentives	933	993	1,892	2,051
Straight-line rent adjustment	142	83	273	(91)
Divisional NOI	11,482	11,689	23,143	23,211

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 June 30		Six months ended June 30	
	2024	2023	2024	2023
Net income for the period	23,340	21,633	36,128	23,786
Amortization of tenant incentives	42	1,949	4,180	4,269
Fair value adjustment on investment properties	(862)	4,780	7,971	7,264
Depreciation on property and equipment	423	426	565	571
Stock based compensation expense	285	248	581	478
Non-cash finance costs	1,100	(2,363)	(127)	415
Gain on sale of asset	(6)	(7)	(53)	(7)
Deferred income taxes	1,626	(678)	2,507	(1,410)
Fair value adjustment on REIT units	(5,833)	(8,556)	(17,889)	(10,889)
FFO	20,115	17,432	33,863	24,477

Properties

(\$000s)	Three months ended June 30		Six months ended June 30	
	2024	2023	2024	2023
Segment Earnings	6,535	7,683	11,318	11,004
Fair value adjustment on investment properties	(1,225)	(2,470)	(650)	(853)
Amortization of tenant incentives	636	466	1,386	1,227
Divisional FFO	5,946	5,679	12,054	11,378

REIT

(\$000s)	Three months ended June 30		Six months ended June 30	
	2024	2023	2024	2023
Segment Earnings	8,447	2,058	8,956	10,350
Fair value adjustment on investment properties	958	7,830	10,014	9,416
Amortization of tenant incentives	933	993	1,892	2,051
Divisional FFO	10,338	10,881	20,862	21,817

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.