

# Management's Discussion & Analysis

November 8, 2022

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 three and nine months ended September 30, 2022 and management's discussion & analysis (MD&A) and consolidated financial statements for the fiscal year ended December 31, 2021.

The financial statements underlying this MD&A, including 2021 comparative information, have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting, unless otherwise noted. All dollar amounts included in this MD&A are Canadian dollars unless otherwise specified.

Melcor's Board of Directors approved the content of this MD&A on November 8, 2022 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.sedar.com](http://www.sedar.com).

## Non-standard Measures

We refer to terms that are not specifically defined in the CPA Handbook and do not have any standardized meaning prescribed by IFRS. These non-standard measures may not be comparable to similar measures presented by other companies. We believe that these non-standard measures are useful in assisting investors in understanding components of our financial results. For a definition of these measures, refer to the section "Non-GAAP and Non-standard Measures".

## Forward-looking Statements

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

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

This MD&A and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent Melcor's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Forward-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2022 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. We also caution readers that the COVID-19 pandemic resulted in both new and increased risk. We feel that the worst is now behind us with the lifting of restrictions however have seen economic impacts such as rising interest rates and inflation. 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

<b>Our Business</b>	2	<b>Liquidity &amp; Capital Resources</b>	15
<b>Third Quarter Highlights</b>	3	Financing	15
<b>Funds from Operations</b>	5	Sources & Uses of Cash	15
<b>Divisional Results</b>	5	<b>Share Data</b>	16
Community Development	6	<b>Off Balance Sheet Arrangements, Contractual Obligations,</b>	16
Property Development	9	<b>Business Environment &amp; Risks, Critical Accounting Estimates,</b>	
Investment Properties	11	<b>Changes in Accounting Policies</b>	
REIT	13	<b>Normal Course Issuer Bid</b>	16
Recreational Properties	14	<b>Quarterly Results</b>	17
<b>General &amp; Administrative Expense</b>	14	<b>Subsequent Events</b>	17
<b>Income Tax Expense</b>	14	<b>Internal Control over Financial Reporting &amp; Disclosure Controls</b>	17
		<b>Non-GAAP and Non-standard Measures</b>	17

# 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 communities, business and industrial parks, office buildings, retail commercial centres and golf courses.

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

We operate four integrated divisions that together manage the full life cycle of real estate development:

- acquiring raw land and planning residential communities and commercial developments (Community Development)
- project managing development, leasing and construction of commercial properties (Property Development)
- operating a portfolio of commercial and residential properties, focused on property improvements and capital appreciation of owned properties and property management of REIT owned properties (Investment Properties)
- acquiring and owning high quality leasable commercial and residential sites (the REIT)

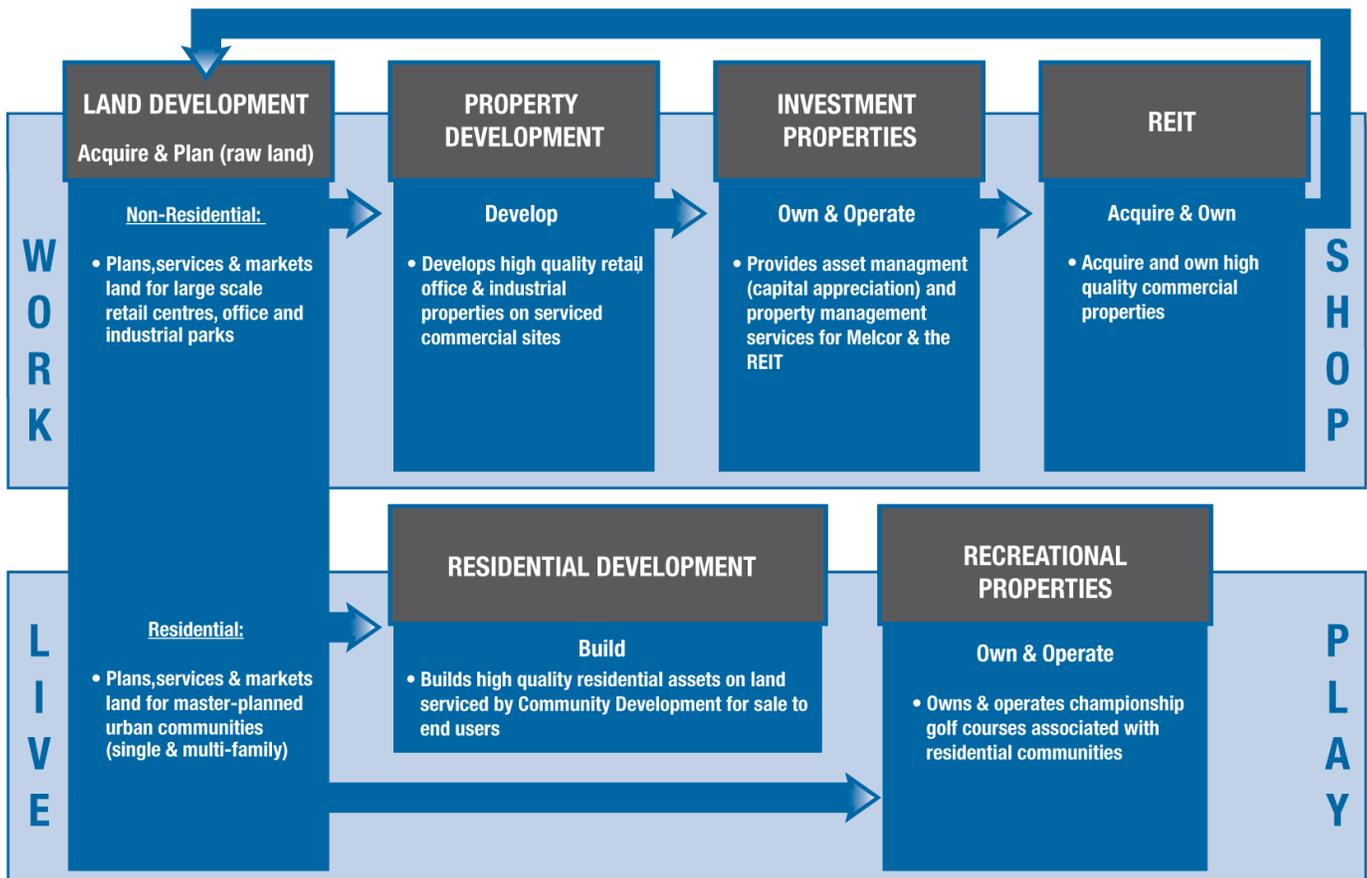
In addition, we own and operate championship golf courses associated with our residential communities in our fifth division, Recreational Properties. Melcor has \$2.18 billion in assets.

The diagram below illustrates how each of our operating divisions complements one another to create and enhance value from our real estate assets.

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

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.

We have been publicly traded since 1968 (TSX:MRD).



## Glossary of Acronyms

Common Acronyms	
<b>FFO</b>	funds from operations
<b>GAAP</b>	generally accepted accounting principles
<b>G&amp;A</b>	general and administrative expense
<b>GBV</b>	gross book value
<b>GLA</b>	gross leasable area
<b>IFRS</b>	international financial reporting standards
<b>NCIB</b>	normal course issuer bid
<b>NOI</b>	net operating income
<b>sf</b>	square feet
<b>SLR</b>	straight-line rent
<b>WABR</b>	weighted average base rent

## Third Quarter Highlights

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

(\$000s except as noted)	Three months ended September 30			Nine months ended September 30		
	2022	2021	Change %	2022	2021	Change %
Revenue	<b>61,136</b>	56,213	9	<b>165,486</b>	165,030	–
Gross margin <sup>1</sup>	<b>49.3%</b>	47.9%	3	<b>49.1%</b>	48.2%	2
Net income	<b>23,774</b>	16,561	44	<b>52,152</b>	11,542	352
Net margin <sup>1</sup>	<b>38.9%</b>	29.5%	32	<b>31.5%</b>	7.0%	350
FFO <sup>2</sup>	<b>16,012</b>	12,516	28	<b>38,562</b>	39,016	(1)
Per Share Data (\$)						
Basic earnings	<b>0.73</b>	0.50	46	<b>1.59</b>	0.35	354
Diluted earnings	<b>0.73</b>	0.50	46	<b>1.59</b>	0.35	354
FFO <sup>3</sup>	<b>0.49</b>	0.38	29	<b>1.18</b>	1.17	1
Dividends	<b>0.15</b>	0.12	25	<b>0.43</b>	0.32	34

As at (\$000s except share and per share amounts)	30-Sep-2022	31-Dec-2021	Change %
Total assets	<b>2,178,869</b>	2,113,927	3.1
Shareholders' equity	<b>1,159,857</b>	1,116,469	3.9
Total shares outstanding	<b>32,061,202</b>	32,961,015	(2.7)
Per Share Data (\$)			
Book value <sup>(3)</sup>	<b>35.55</b>	33.87	5.0

- 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 longer term nature of real estate development, comparison of any three-month period may not be meaningful.

The market continues to be challenged by inflation and rising interest rates. The leasing market has seen added supply in some of our core regions and a shift in demand for product with new construction and remote and hybrid work models following the lifting of work from home restrictions.

Occupancy in our investment properties (including the REIT) increased over year-end to 88.4% (Q4-2021: 84.2%) due to the timing of leasing coming online. Our year-to-date retention for REIT was healthy at 87.9%. Strong leasing activity in our Property Development division continues to drive new development in commercial centres that complement and enhance our communities.

Demand remains stable throughout all regions in our Community Development division with plenty of activity in sales and construction. The US community development model differs from Canadian markets, with the majority of revenue occurring in a single quarter. Builders buy lots in bulk to develop themselves and build homes to sell to homeowners. These are often referred to as "paper lot sales". Due to the bulk selling nature of our US market, no lots have been sold in US year-to-date.

Investment properties GLA increased slightly as a result of property transferred from Property Development over the past 12 months. Revenue from our Income Properties and REIT divisions was up in the quarter compared to Q3-2021. Our 2021 year-to-date results continue to be impacted by lease termination fees received in our REIT division (\$1.00 million) and Investment Properties division (\$1.94 million) which occurred in Q1-2021.

Our golf courses saw a slight decrease in rounds played to date in 2022 primarily due to late opening dates at the courses. 2021 saw a record breaking number of rounds played as more golfers enjoyed a safe, outdoor activity during government restrictions. This is offset by efforts to focus on the clubhouses and food and beverage services.

### FINANCIAL HIGHLIGHTS

Revenue was up 9% to \$61.14 million in Q3-2022 (Q3-2021: \$56.21 million) and has remained stable year-to-date. The real estate industry can have fluctuations in revenue period over period as a result of the cyclical nature of development. Lot sales, which have a significant impact on quarterly results, are uneven by nature and it is difficult to predict when they will close. Typically we see the most revenue from lot sales in the third and fourth quarters as that is when plans typically register. Year-to-date revenue in Community Development saw a decrease of 5% as a result of US sales recognized in the comparative period. Excluding the US revenues, Canadian Community Development revenue has increased \$9.97 million or 16% over 2021 year-to-date results.

FFO was up 28% or \$3.50 million in the quarter and down 1% or \$0.45 million year-to-date over the comparative period. 2021 year-to-date FFO continues to be impacted by lease termination fees received in both the REIT (\$1.00 million) and Investment Properties (\$1.94 million) divisions. Adjusting for these one-time events, FFO was up \$2.49 million year-to-date compared to 2021.

Improved gross profit both in the quarter and year-to-date have been partially offset by higher G&A expenses which continue to feel inflationary pressures. Distributions to REIT unitholders also

increased both in the quarter and year-to-date, which correlates to the distribution increase in the REIT in August 2021.

Net income was \$23.77 million in Q3-2022 compared to \$16.56 million in Q3-2021. Net income is significantly impacted by swings in non-cash fair value adjustments on investment properties, REIT units 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. These gains are driven by market forces outside of Melcor's control and are a key reason we focus on FFO as a truer measure of our financial performance.

## DIVISIONAL OPERATING HIGHLIGHTS

The **Community Development** division saw healthy sales activity in our Canadian markets, including satellite communities such as St. Albert, Spruce Grove, Airdrie and Cochrane. Year-to-date, we sold 676 single-family lots compared to 408 last year. We continue to move new communities and additional phases in existing neighbourhoods through the municipal approval process. Our Harmony community in Denver, CO remains the largest land development project in our US region. Sales in this area are often sold in bulk and thus result in lumpy sales being realized in this region. No lots have been sold in the US year-to-date.

The **Property Development** division currently has 40,911 sf in 2 projects (Clearview Market 2 and Greenwich) under construction, and transferred one CRU (12,660 sf) in Chestermere to our Investment Properties division in the quarter. A further 10,783 sf in Woodbend Market is complete and awaiting lease-up and transfer. Construction and leasing activity resulted in fair value gains of \$0.36 million in the quarter and \$0.77 million year-to-date.

Total GLA under management varies period over period as a result of both property transfers and remeasures of property that typically occur on lease transfers and/or renewals. Revenue in our income-producing divisions (**Investment Properties** and **REIT**) continued to produce stable results in both the quarter and year-to-date. Year-to-date results continue to be impacted by early termination fees received in Q1-2021, which are included in other revenue, and the disposition of 11 residential units in the US in late 2021, resulting in reduced revenue. Year-to-date we disposed of 8 residential units in the US. Increased occupancy on our Canadian and US assets contributed positively to revenue. Additionally, REIT occupancy also saw an increase in Q3-2022.

The Investment Property portfolio fair value increased \$2.07 million in Q3-2022. To date in 2022, we have had 46 legal phases valued by external valuation professionals. We have seen some shifts in the market this quarter and a slight increase in capitalization rates on our office properties, which decreases the fair value of an asset, and slight cap rate decreases on our retail portfolio. Fair value is also impacted by increased spend on tenant incentives that did not have a corresponding increase in fair value.

Our **Recreational Properties** saw a 10% decrease in rounds played to date in 2022 as a result of later course openings compared to 2021. However, revenue increased 4% to \$9.62 million as a result of increased food and beverages sales in our clubhouses and restaurants.

## RETURNING VALUE

We continue to return value to our shareholders and unitholders:

### Melcor Developments:

- We paid a quarterly dividend of \$0.15 per share in September 2022 (year-to-date: \$0.43 per share).
- On November 8, 2022 we declared a quarterly dividend of \$0.15 per share, payable on December 30, 2022 to shareholders of record on December 15, 2022. The dividend is an eligible dividend for Canadian tax purposes.

### Melcor REIT:

- The REIT increased monthly distributions by 14% to \$0.04 per unit in August 2021.
- Subsequent to the quarter, the REIT declared distributions for November and December and will be paying the previously declared October distribution as follows:

Month	Declaration Date	Record Date	Distribution Date	Distribution Amount
October 2022	August 15, 2022	October 31, 2022	November 15, 2022	\$0.04 per Unit
November 2022	November 3, 2022	November 30, 2022	December 15, 2022	\$0.04 per Unit
December 2022	November 3, 2022	December 30, 2022	January 16, 2023	\$0.04 per Unit

## REVENUE & MARGINS

Revenue was up 9% to \$61.14 million compared to Q3-2021, and consistent at \$165.49 million year-to-date. The increase in revenue in the quarter was primarily in our Investment Property division, which increased 25% to \$11.59 million compared to Q3-2021. Community Development revenue varies quarter over quarter due to the timing of lot sales and plan registrations which often happen in the later half of the year following the construction season. Revenue from single-family lot sales in Canada was \$65.37 million year-to-date, up from \$58.95 million in 2021. Community Development division revenue is highly dependent on the demand for new homes in the regions where we hold land, the timing of raw, commercial and multi-family land sales, and the timing of registration on single-family lots.

Our income-generating divisions (**Investment Properties** and **REIT**) accounted for 53% of year-to-date revenue after intersegment eliminations compared with 51% in 2021. To date in 2022, revenue from our income-generating divisions was \$87.46 million compared with \$84.98 million in 2021 and maintained a steady 59% gross margin. Our year-to date comparative results continue to be impacted by lease termination fees received in both our REIT division (\$1.00 million) and Investment Properties division (\$1.94 million) which occurred in Q1-2021.

Consolidated gross margin increased to 49% in Q3-2022 (Q3-2021: 48%) and 49% year-to-date (YTD-2021: 48%). This increase is due to a shift in proportionate gross profit contributed from the income-generating divisions compared to prior year. Our IP and REIT divisions tend to generate higher margins than our Community Development division.

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

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

cyclical nature of real estate and construction markets, and the mix of lot sales and product types. The growth of our income-generating divisions offsets this 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 September 30		Nine months ended September 30	
	2022	2021	2022	2021
<b>Net income for the period</b>	<b>23,774</b>	16,561	<b>52,152</b>	11,542
Amortization of tenant incentives	<b>2,738</b>	2,102	<b>5,620</b>	5,922
Fair value adjustment on investment properties	<b>(3,070)</b>	(5,183)	<b>247</b>	(10,040)
Depreciation on property and equipment	<b>533</b>	509	<b>1,141</b>	1,107
Stock based compensation expense	<b>514</b>	254	<b>847</b>	762
Non-cash finance costs	<b>(2,619)</b>	(135)	<b>(7,911)</b>	4,147
Gain on sale of asset	<b>(29)</b>	(65)	<b>(37)</b>	(127)
Deferred income taxes	<b>(126)</b>	(879)	<b>11</b>	(604)
Fair value adjustment on REIT units	<b>(5,703)</b>	(648)	<b>(13,508)</b>	26,307
<b>FFO<sup>1</sup></b>	<b>16,012</b>	12,516	<b>38,562</b>	39,016
<b>FFO per share<sup>2</sup></b>	<b>0.49</b>	0.38	<b>1.18</b>	1.17

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 28% or \$3.50 million in the quarter and down 1% or \$0.45 million year-to-date. Improved gross profit in the quarter was partially offset by higher G&A expenses which continue to feel inflationary pressures and have also been impacted by higher professional fees (including appraisals, audit and legal costs) over the comparative quarter.

2021 year-to-date FFO continues to be impacted by lease termination fees received in both the REIT (\$1.00 million) and Investment Properties (\$1.94 million) divisions. Adjusting for these one-time events, FFO was up \$2.49 million year-to-date compared to 2021. Similar to the quarter, we saw improved gross profit year-to-date which excluding the comparative period lease fees was up \$4.38 million. G&A increases and higher distributions to REIT unitholders (included in adjustments related to REIT units) offset the higher gross profit. Increases in G&A are largely due to inflation and the reversal of pandemic related cost saving measures.

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:

- **Community Development**, which acquires raw land for future commercial and residential community development;
- **Property Development**, which develops high-quality retail, office and industrial income-producing properties on serviced commercial sites developed by Community Development;
- **Investment Properties**, which manages and leases the commercial developments produced by the Property Development division and an externally purchased portfolio of assets, as well as assets held in the REIT;
- **The REIT**, which owns and holds 39 income-producing properties; and
- **Recreational Properties**, which owns and operates championship golf courses associated with Melcor residential communities.

Our Corporate division carries out support functions including accounting, treasury, information technology, administration, legal, marketing and human resources.

The following table summarize the results of our operating divisions:

(\$000s except as noted)	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Three months September 30,		Three months September 30,		Three months September 30,		Three months September 30,		Three months September 30,	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Revenue	28,411	26,441	3,310	8,740	11,593	9,272	18,189	18,089	4,857	4,658
Portion of total revenue %	43 %	39 %	5 %	13 %	17 %	14 %	27 %	27 %	7 %	7 %
Cost of sales	(17,211)	(16,453)	(3,200)	(8,700)	(4,372)	(3,884)	(7,307)	(7,248)	(2,644)	(2,406)
Gross profit	11,200	9,988	110	40	7,221	5,388	10,882	10,841	2,213	2,252
Gross margin % <sup>1</sup>	39 %	38 %	3 %	– %	62 %	58 %	60 %	60 %	46 %	48 %
Portion of total margin <sup>1</sup>	35 %	35 %	– %	– %	23 %	19 %	34 %	38 %	7 %	8 %
General and administrative expense	(1,942)	(1,820)	(465)	(431)	(505)	(470)	(783)	(717)	(845)	(777)
Fair value adjustment on investment properties	–	–	356	2,272	(4,263)	(395)	6,337	2,535	–	–
Gain on sale of assets	–	–	–	–	–	–	–	–	29	65
Interest income	661	142	2	–	8	–	7	7	1	–
Segment earnings	9,919	8,310	3	1,881	2,461	4,523	16,443	12,666	1,398	1,540

(\$000s except as noted)	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Nine months September 30		Nine months September 30		Nine months September 30		Nine months September 30		Nine months September 30	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Revenue	74,662	78,832	7,124	12,011	32,156	29,430	55,308	55,552	9,619	9,291
Portion of total revenue %	42 %	43 %	4 %	6 %	18 %	16 %	31 %	30 %	5 %	5 %
Cost of sales	(45,459)	(49,583)	(6,900)	(11,900)	(12,722)	(11,953)	(22,846)	(22,331)	(5,021)	(4,754)
Gross profit	29,203	29,249	224	111	19,434	17,477	32,462	33,221	4,598	4,537
Gross margin % <sup>1</sup>	39 %	37 %	3 %	1 %	60 %	59 %	59 %	60 %	48 %	49 %
Portion of total margin <sup>1</sup>	34 %	35 %	– %	– %	23 %	21 %	38 %	39 %	5 %	5 %
General and administrative expense	(5,586)	(5,071)	(1,664)	(1,344)	(2,201)	(1,632)	(2,381)	(2,215)	(2,070)	(1,953)
Fair value adjustment on investment properties	–	–	766	1,133	(549)	3,476	(2,865)	2,665	–	–
Gain on sale of assets	–	–	–	–	–	–	–	–	37	127
Interest income	973	405	2	–	14	1	22	20	2	–
Segment earnings (loss)	24,590	24,583	(672)	(100)	16,698	19,322	27,238	33,691	2,567	2,711

Divisional results are shown before intersegment eliminations and exclude corporate division.

<sup>1</sup> Supplementary financial measure. Refer to Non-GAAP and Non-Standard Measures section for further details.

## Community Development

Our Community Development division acquires raw land in strategic urban corridors and subsequently plans, develops and markets this land as builder-ready urban communities and large-scale commercial and industrial centres. This process includes identifying and evaluating land acquisitions, site planning, obtaining approvals from municipalities, developing the land, construction, marketing and ultimately selling the lots to home builders (for residential communities) or developers (for

commercial/industrial centres). The division also sells sites to our Property Development division, which in turn develops commercial properties on the land.

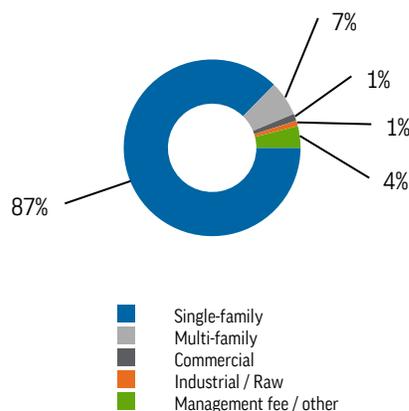
Master-planned mixed-use residential communities comprise the majority of Community Development's portfolio. We create efficient and sustainable urban communities by establishing an overall vision for each community and the amenities that will make it a desirable place to live. Residential lots and multi-family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

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

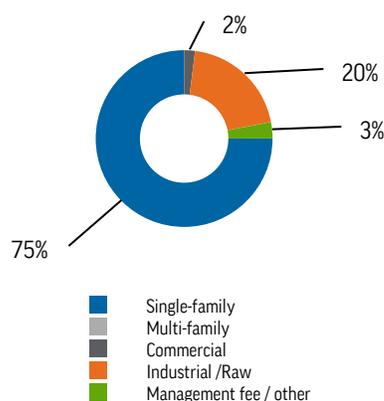
## Sales Activity

### REVENUE BY TYPE

Nine months ended September 30, 2022



Nine months ended September 30, 2021



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

Consolidated	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
<b>Canada Sales data: (including joint ventures at 100%)</b>				
Single-family sales (number of lots)	272	109	676	408
Gross average revenue per single-family lot (\$)	138,464	167,949	150,763	206,202
Multi-family sales (acres)	—	—	13.07	—
Gross average revenue per multi-family acre (\$)	—	—	802,357	—
Commercial sales (acres)	—	—	1.91	4.95
Gross average revenue per commercial land acre (\$)	—	—	512,304	573,080
Industrial sales (acres)	—	—	0.95	1.29
Gross average revenue per industrial land acre (\$)	—	—	452,631	325,581
Land sales to government bodies - raw, other (acres)	0.35	—	0.85	14.88
Gross average revenue per other land acre (\$)	175,997	—	95,999	92,133
Other land sales - raw, other (acres)	—	—	—	1.57
Gross average revenue per other land acre (\$)	—	—	—	31,357
<b>US Sales data:</b>				
Other land sales - raw (paper lots), other	—	293	—	293
Gross average revenue per paper lot (\$)	—	47,250	—	47,250
<b>Divisional results: (including joint ventures at Melcor's interest)<sup>1</sup></b>				
Revenue (\$000s)	28,411	26,441	74,662	78,832
Earnings (\$000s)	9,919	8,310	24,590	24,583

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.

Single-family lot sales increased in the quarter with 272 single-family lots sold in Q3-2022 (Q3-2021: 109). Year-to-date, single-family lot sales increased to 676 compared to 408 in 2021. The Edmonton region contributed the largest volume of single-family lot sales year-to-date at 347 (YTD-2021: 193) In the quarter, Calgary had the largest number of regional sales with 175 in the quarter (Q3-2021: 62). Lanark Landing and Cobblestone Creek, both located in Airdrie, AB had new phases register in the quarter and brought in sales of 70 and 80 lots for the Calgary region, respectively.

There were no multi-family land sales in the quarter. Year-to-date we sold 13.07 acres of multi-family land for revenue of \$4.82 million, at joint venture interest. Included in the 13.07 acres is 7.77 acres sold in the Edmonton region (Windermere at Glenridding and Rosenthal) and 5.30 acres sold in Lethbridge (Legacy Ridge).

The US Community Development model differs from Canadian markets, with the majority of revenue occurring in a single quarter. Builders buy lots in bulk to develop themselves and build homes to sell to homeowners. These are often referred to as "paper lot sales". Due to the bulk selling nature of our Harmony in Denver, CO, no lots have been sold in US year-to-date.

In the quarter we sold 0.35 acres of land to government bodies. Year-to-date, we sold 0.85 acres to government bodies, 1.91 acres of commercial land, and 0.95 acres of industrial land which contributed \$1.49 million in revenue for our Community Development division.

Land sales, including commercial, multi-family and industrial sites, tend to vary quarter over quarter and can lead to lumpy revenue.

Our construction program has been active in 2022 with 15 new phases registered in 12 communities year-to-date. We expect to register 11 additional phases before the end of 2022.

The gross margin for the Community Development division is strongly impacted by the mix of both product type and location of inventory sold. Gross margin improved to 39% in Q3-2022 and 39% year-to-date (Q3-2021: 38%; YTD-2021: 37%).

The average sale price on single-family lots decreased 27% from Q3-2021 primarily due to a larger volume of estate lot sales in the Kelowna region in 2021, pushing up the margin in the comparative period. Single-family lot sales cover a wide mix of product categories at various price points in 2022 thus far, from starter town homes and duplexes to lakefront estate lots.

In the US, no single-family or paper lots have been sold year-to-date. Year-to-date in 2021, we sold 293 paper lots (79 acres) in Goodyear, AZ, which generated \$13.84 million (US\$10.99 million) in revenue. We are actively marketing and working on final approvals for all of our land assets in the US. We intend to sell many of these projects as paper lots, which means we do not plan to develop them ourselves. While we may participate in strategic land purchase opportunities, our primary focus is on harvesting our current inventory.

We continue to develop new phases in communities where demand is evident. We remain committed to managing our risk in uncertain markets by ensuring that market demand is in place prior to proceeding with development, and by ensuring that our product mix is aligned with current market preferences.

### Regional Sales Analysis

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

<i>(including joint ventures at 100%)</i>	Three months ended			Three months ended		
	September 30, 2022			September 30, 2021		
	Single-family (Lots)	Multi-family (Acres)	Other (Acres)	Single-family (Lots)	Multi-family (Acres)	Other (Acres)
Edmonton Region	59	–	–	34	–	–
Red Deer	15	–	–	10	–	–
Calgary Region	175	–	0.35	62	–	–
Lethbridge	22	–	–	–	–	–
Kelowna	1	–	–	3	–	–
United States	–	–	–	–	–	79.00
	272	–	0.35	109	–	79.00

<i>(including joint ventures at 100%)</i>	Nine months ended			Nine months ended		
	September 30, 2022			September 30, 2021		
	Single-family (Lots)	Multi-family (Acres)	Other (Acres)	Single-family (Lots)	Multi-family (Acres)	Other (Acres)
Edmonton Region	347	7.77	0.95	193	–	9.75
Red Deer	41	–	1.91	51	–	9.87
Calgary Region	238	–	0.35	82	–	1.50
Lethbridge	34	5.30	–	7	–	–
Kelowna	16	–	–	75	–	1.57
Saskatchewan	–	–	0.5	–	–	–
United States	–	–	–	–	–	79.00
	676	13.07	3.71	408	–	101.69

Single-family lot sales may vary significantly quarter over quarter as plan registrations typically occur in the latter half of the year. Year-to-date, lot sales were up in major Alberta regions including Edmonton, Calgary and Lethbridge.

Sales remain strong in all areas that have available inventory.

### Inventory

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

<i>(including joint ventures at 100%)</i>	Nine months ended			Nine months ended		
	September 30, 2022			September 30, 2021		
	Single-family (Lots)	Multi-family (Acres)	Other (Acres)	Single-family (Lots)	Multi-family (Acres)	Other (Acres)
Open	685	61.71	123.30	652	59.00	126.09
Purchases	–	–	–	1	–	–
New developments	485	5.46	1.91	215	–	3.45
Redevelopment	36	(3.34)	–	–	–	–
Internal sales	–	–	–	–	–	(4.95)
Sales	(676)	(13.07)	(2.86)	(408)	–	(1.29)
	530	50.76	122.35	460	59.00	123.30

We strategically monitor inventory levels and bring on appropriately sized new phases where market demand dictates. In Q1-2022, we rezoned a 3.34 acre site into 36 new single-family lots in the Edmonton region to adjust our land holdings to changing market demands.

### 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.

To date in 2022 we have purchased two parcels of land totaling 13.01 acres in Buckeye, Arizona for \$4.25 million (US \$3.30 million). In the comparative period in 2021 we purchased 17.10

acres of land also in Buckeye, Arizona for \$3.04 million (US \$2.45 million).

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

## Property Development

Our Property Development division develops, manages construction, markets and initially leases high-quality retail, office, industrial and multi-family residential revenue-producing properties on prime commercial sites purchased primarily from our Community Development division at fair market value. The division currently operates solely in Alberta.

The Property Development division supports our strategic objectives of asset diversification, income growth and value creation by constructing income-producing commercial developments.

The Property Development division increases the value of land assets and delivers long-term sustainable returns with high profile anchor tenants such as ATB, Bank of Montreal, Canadian Tire, Canadian Western Bank, CIBC, Home Depot, Loblaws, McDonald's, Recipe Unlimited, Rona, Royal Bank, Save-on Foods, Scotiabank, Shoppers Drug Mart, Staples, Starbucks, Subway, TD Canada Trust, Tim Hortons, Wal-Mart, Winners and many others.

Completed buildings are transferred from Property Development to Investment Properties at fair market value (based on third party appraisals) once construction and leasing activity nears completion. The transferred revenue and related costs are eliminated on consolidation and do not impact overall earnings.

Management fee revenue is comprised of fees paid by joint arrangement partners and is a percentage of total development costs incurred, which fluctuate period to period depending on the development stage of active projects. Fees are also collected in Property Development on large tenant work done for Investment Properties and REIT divisions.

The Property Development division realizes fair value gains resulting from development and leasing activities as construction is in progress. We generally expect to see the majority of fair value increases in the third and fourth quarters as construction and leasing are completed.

### Division Highlights

(\$000s and at JV%, except as noted)	Three months ended	
	30-Sep-2022	30-Sep-2021
Total revenue	3,310	8,740
Revenue from property transfers	3,200	8,700
Management fees revenue	110	40
Margin (%) on property transfers	22 %	14 %
Square footage transferred (sf, at 100%)	12,660	16,348
Number of buildings transferred	1	1
Fair value gains on investment properties	356	2,272

(\$000s and at JV%, except as noted)	Nine months ended	
	30-Sep-2022	30-Sep-2021
Total revenue	7,124	12,011
Revenue from property transfers	6,900	11,900
Management fees revenue	224	111
Margin (%) on property transfers	16 %	13 %
Square footage transferred (sf, at 100%)	19,709	22,865
Number of buildings transferred	2	2
Fair value gains on investment properties	766	1,133

In the quarter, Property Development completed and transferred one CRU (12,660 sf) for \$3.20 million in our Chestermere Station development. Year-to-date, we have transferred two CRU's (19,709 sf) for \$6.90 million.

We have had a busy third quarter in both planning and construction in Property Development. In Clearview Market 2 (Red Deer, AB) we have two single use CRUs under construction including a BMO bank and a Starbucks coffee shop. In Greenwich (Calgary, AB) we have commenced construction on two multi-tenant CRU sites. In our Woodbend community (Leduc, AB) we have finished planning and subsequent to the quarter end we began construction on both a Shoppers Drug Mart as well as a connected CRU building. This new construction will continue throughout the next few quarters with expected transfer dates to Investment Properties in 2023. In addition to the above, we have one CRU located in our Woodbend Market Leduc, AB (Edmonton area) awaiting lease-up.

Continued development and leasing in these projects resulted in fair value gains of \$0.36 million during the quarter. Management examines each development site on a case by case basis and we continue to develop where we remain confident in our lessees prospects.

The Property Development division currently has 51,694 sf under active development or completed and awaiting lease-up.

### Regional Highlights

(\$000s and at JV%, except as noted)	Three months ended	
	30-Sep-2022	30-Sep-2021
Fair value adjustments by region		
Northern Alberta	139	930
Southern Alberta	217	1,342
	356	2,272

(\$000s and at JV%, except as noted)	Nine months ended	
	30-Sep-2022	30-Sep-2021
Fair value adjustments by region		
Northern Alberta	549	1,041
Southern Alberta	217	92
	766	1,133

**Northern Alberta:** We recognized \$0.14 million in fair value gains in the quarter and \$0.55 million year-to-date. Fair value gains in the quarter were driven by development done at Clearview Market 2 (Red Deer, AB) which has two stand along buildings currently under construction including a bank and a coffee shop. Year-to-date gains also including the final work which was done on a CRU in Jensen Lakes (St. Albert, AB) as well as final leasing and construction work being done at Woodbend (Leduc, AB) which was transferred to Investment Properties in the second quarter.

**Southern Alberta:** We recognized \$0.22 million in fair value gains in the to date in this region as we continue to build out our Chestermere Station (Chestermere, AB) development, which is

nearing completion. We have begun planning on a final CRU in this regional shopping center, which is planned to be under construction in the spring of 2023. We have a further 34,589 sf at Greenwich (Calgary, AB) under construction, which includes two buildings.

#### Future development opportunities

We continually review our land inventory to identify parcels that are well suited for commercial development in the near future. We also work with municipalities to gain approvals to commence development on new projects.

The following tables illustrate our current and future project expectations:

Current Projects					
Project	Location	Type	Total SF <sup>1</sup>	Developed and transferred to IP or Sold <sup>2</sup>	SF Under Development or developed and awaiting lease up
The Village at Blackmud Creek	South Edmonton	Regional business park	550,000	198,905	–
Telford Industrial	Leduc	Industrial Park	500,000	143,118	–
West Henday Promenade	West Edmonton	Regional mixed use centre	515,300	116,300	–
Kingsview Market	Airdrie	Regional shopping centre	331,000	200,601	–
Kingsview Commercial	Airdrie	Regional shopping centre	33,500	33,500	–
Chestermere Station	Chestermere	Neighbourhood shopping centre	278,100	241,600	–
Clearview Market 2	Red Deer	Neighbourhood shopping centre	80,000	20,794	6,322
The District at North Deerfoot	North Calgary	Regional business / industrial park	1,285,000	586,633	–
Campsite Industrial	Spruce Grove	Industrial Park	170,000	13,700	–
The Shoppes at Jagare Ridge	South Edmonton	Neighbourhood shopping centre	105,000	105,000	–
Jensen Lakes Crossing	St. Albert	Neighbourhood shopping centre	150,000	108,373	–
Woodbend Market	Leduc	Neighbourhood shopping centre	140,000	3,130	10,783
Vista Ridge	Sylvan Lake	Neighbourhood shopping centre	20,000	5,158	–
Greenwich	West Calgary	Regional mixed use centre	325,000	62,557	34,589

<sup>1</sup> Total SF represents the estimated total square footage remaining to be developed in the project. This includes sites that may be individually sold to retailers or end-users. For example, grocers usually buy land from Melcor and build/own their building. Total SF is periodically recalibrated based on current market conditions and changes to development plans.

<sup>2</sup> Developed and transferred to IP or sold includes estimated sf of sites sold to retailers for development as described above.

## Expected Future Projects

Project	Location	Type	Total SF <sup>1</sup>	Ownership Interest	Expected Start (year)
Secord	Edmonton	Neighbourhood shopping centre	75,000	60 %	2023
Laredo	Red Deer	Neighbourhood shopping centre	10,000	100 %	2024+
Keystone Common	North Calgary	Regional power centre	350,000	100 %	2024+
The Shoppes at Canyons	Lethbridge	Neighbourhood shopping centre	105,000	100 %	2024+
Mattson	Edmonton	Neighbourhood shopping centre	75,000	50 %	2024+
Rollyview	Leduc	Neighbourhood shopping centre	75,000	100 %	2024+
Rosenthal	Edmonton	Neighbourhood mixed use centre	30,000	50 %	2024+
West Pointe Marketplace	Lethbridge	Regional power centre	750,000	100 %	2024+
Westview Commercial	West Calgary	Neighbourhood shopping centre	150,000	100 %	2024+
Sora	South Calgary	Neighbourhood shopping centre	60,000	50 %	2024+

<sup>1</sup> Total SF represents the estimated total square footage remaining to be developed in the project. This includes sites that may be individually sold to retailers or end-users. For example, grocers usually buy land from Melcor and build/own their building. Total SF is periodically recalibrated based on current market conditions and changes to development plans.

## Investment Properties

Our Investment Properties division manages and leases our portfolio of high-quality office, retail, industrial and residential properties, which are located across western Canada and the US, including properties owned by the REIT. Currently our Investment Properties division manages 4.79 million sf of income-producing commercial GLA and 585 residential units.

Our commercial property portfolio is primarily comprised of properties developed and transferred from our Property Development division in Alberta or acquired from third parties throughout our portfolio. Our goal is to improve the operating efficiency of each property for stable and growing cash flows, making them attractive assets for the REIT to purchase under its Right of First Offer (ROFO) option. In our management capacity, we are committed to efficient property management for optimized operating costs, occupancy and rental rates, providing the REIT and our joint venture partners with best in class management services. We focus on client retention through continuous customer contact and ongoing service evaluations. We also enhance our portfolio by upgrading the appearance, functionality and desirability of our properties, thereby increasing their rental potential.

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

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

### Operating results

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

<i>(as at, at JV%, except as noted)</i>		
	30-Sep-2022	31-Dec-2021
Commercial properties GLA under management (sf, total)	<b>4,787,112</b>	4,753,285
Properties owned and managed (sf)	<b>1,122,539</b>	1,101,292
Properties managed (sf)	<b>3,664,573</b>	3,651,993
Residential units managed	<b>585</b>	593
Occupancy - CAD	<b>89.5 %</b>	76.1 %
Occupancy - US	<b>81.1 %</b>	75.4 %
Weighted Average Base Rent (per sf) - CAD	<b>\$ 24.14</b>	\$ 26.59
Weighted Average Base Rent (per sf) - US	<b>\$ 20.68</b>	\$ 20.67

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

(\$000s and at JV % except as noted)	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
	Revenue (total)	<b>11,593</b>	9,272	<b>32,156</b>
Canadian properties	<b>6,338</b>	4,375	<b>16,403</b>	12,762
US properties	<b>3,765</b>	3,494	<b>11,217</b>	12,066
Management fees	<b>1,271</b>	1,277	<b>3,994</b>	4,257
Parking lots and other assets	<b>219</b>	126	<b>542</b>	345
Net operating income (NOI) <sup>1</sup>	<b>6,289</b>	5,539	<b>18,609</b>	17,928
Funds from operations <sup>1</sup>	<b>7,139</b>	5,324	<b>18,420</b>	17,060
Funds from operations per share <sup>2</sup>	<b>0.22</b>	0.16	<b>0.57</b>	0.52

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

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

The Investment Properties division's primary function is asset management and hands on property management.

### Canadian properties

Our Canadian property portfolio continues to grow as properties are developed and transferred from Property Developments. The Property Development division has 51,694 sf of GLA under active construction or completed and awaiting lease up. The majority of transfers to Investment Properties typically occur in the latter part of the year due to construction timing and weather in our primary operating regions.

Occupancy at our Canadian properties was up over year-end at 89.5% (2021: 76.1%) while WABR was down 9% at \$24.14 (2021: \$26.59). Occupancy and WABR are impacted by transfers from the Property Development division as new leases have both fixturing and rent free periods impacting both occupancy and WABR. A single tenant occupying 55,201 sf opened in the quarter and received free-rent, which impacted WABR. Excluding this tenant, WABR was \$26.85.

Leasing activities on our newer Property Development assets contributed to both the increase in WABR and occupancy to date in 2022. Certified measures on tenant spaces can also cause slight variances on occupancy as these are adjusted as tenants occupy space.

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

(\$000s and at JV%, except as noted)	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Same asset NOI <sup>1</sup>	<b>2,510</b>	2,488	<b>7,723</b>	7,174
Properties transferred from PD	<b>868</b>	436	<b>2,315</b>	751
NOI <sup>1</sup>	<b>3,378</b>	2,924	<b>10,038</b>	7,925
Amortization of tenant incentives	<b>(177)</b>	(165)	<b>(511)</b>	(480)
Straight-line rent adjustment	<b>1,300</b>	284	<b>1,784</b>	1,151
Gross profit	<b>4,501</b>	3,043	<b>11,311</b>	8,596

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

Gross profit was up 48% or \$1.46 million in the quarter and 32% or \$2.72 million year-to-date. NOI increased by 16% or \$0.45 million in the quarter and 27% or \$2.11 million year-to-date.

Properties transferred from Property Development over the last 12 months, as well as those currently under development, added \$0.87 million in NOI in Q3-2022 and \$2.32 million year-to-date (Q3-2021: \$0.44 million; YTD-2021: \$0.75 million).

On a same asset basis, NOI was up 1% in the quarter and 8% year-to-date due to improved occupancy.

### US properties

Two events had a significant impact on IP results. We define the terms and refer to them in the following discussion:

**IP Early Termination event:** In Q1-2021 revenue included a termination fee of \$1.94 million (US\$1.53 million) from a tenant who surrendered 19,000 sf of office space.

**Dispositions:** We sold 11 Brownstone units in Q3-2021, and 8 units in our Dakotas, Edge and Shores locations year-to-date. These dispositions are adjusted for in the same asset NOI calculations following.

Revenue on US properties was \$3.77 million in Q3-2022 (Q3-2021: \$3.49 million) and \$11.22 million year-to-date (YTD-2021: \$12.07 million). Excluding the IP Early Termination event, year-to-date revenue was up 11%. Revenue and NOI were also impacted by dispositions in the trailing 12 months, which is adjusted for in the same asset NOI calculations in the following table.

Occupancy was up at 81.1% (2021: 75.4%) and WABR remained stable over year-end at \$20.68.

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

(\$000s and at JV%, except as noted)	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Same asset NOI <sup>1</sup>	1,288	1,233	3,911	5,443
Third party disposals	—	18	—	83
NOI <sup>1</sup>	1,288	1,251	3,911	5,526
Foreign currency translation	392	325	1,105	1,386
Amortization of tenant incentives	(238)	(241)	(662)	(734)
Straight-line rent adjustment	47	(29)	214	(388)
Gross profit	1,489	1,306	4,568	5,790

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

Gross profit was up \$0.18 million in Q3-2022 and down \$1.22 million year-to-date. Excluding the IP Early Termination event, gross profit was up \$0.72 million year-to-date. Fluctuations in straight-line rent was the largest contributor to swings in gross profit and revenue in both the quarter and year-to-date.

### Management fees & other

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

Q3-2022 management fees were stable compared to Q3-2021, and down \$0.26 million or 6% year-to-date. Management fees within our investment properties division includes payments received from REIT for management of the assets held within that division. The leasing fee agreement between Melcor and Melcor REIT was amended in Q3-2022, resulting in adjustments to-year to-date charges. These amounts are eliminated on consolidation.

### Funds from Operations

FFO increased 34% or \$1.82 million in the quarter 8% or \$1.36 million year-to-date. The IP Early Termination fee continues to skew year-to-date results in the comparative period as it directly increased other revenue and NOI. Excluding this event, year-to-date FFO was up 22% or \$3.30 million due to increased occupancy.

### REIT

The REIT owns 39 income-producing office, retail and industrial properties, comprising 3.22 million square feet of GLA at September 30, 2022. The REIT's portfolio has a diversified tenant profile - with a mix of national, regional and local tenants - operating in a variety of industries.

As at November 8, 2022 we have a controlling 55.4% interest in the REIT through ownership of all Class B LP Units (December 31, 2021 - 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.

**Early Termination event:** In Q1-2021, we received \$1.00 million for the early lease termination of a fast food chain which was included in other revenue, and impacts year-to-date comparative results.

### Operating results

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

(as at, at JV%, except as noted)	30-Sep-2022	31-Dec-2021
	Commercial properties GLA under management (sf, total)	3,216,141
Fair value of portfolio <sup>1</sup>	726,912	723,729
Occupancy	88.2 %	87.1 %
Weighted average base rent (per sq. ft.)	16.49	16.73

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

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

(\$000s except as noted)	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Rental revenue	18,189	18,089	55,308	55,552
NOI <sup>1</sup>	11,613	11,915	34,859	36,124
Same asset NOI <sup>1</sup> (see calculation following)	11,613	11,915	34,859	36,124
Fair value adjustment on investment properties	6,337	2,535	(2,865)	2,665
Funds from operations <sup>1</sup>	11,062	11,247	32,866	33,993
Funds from operations per share <sup>2</sup>	0.34	0.34	1.00	1.02

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

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

Rental revenue was consistent in the quarter and year-to-date. Excluding the Early Termination event, revenue was up 1% year-to-date. Swings in SLR partially offset the higher other revenue in the comparative period.

Other revenue includes parking, storage, lease amendment fees and other miscellaneous revenue that is ancillary to our business and fluctuates from period to period. Year-to-date other revenue was significantly impacted by the \$1.00 million fee for the Early Termination event received in Q1-2021.

To date, we have signed 446,993 sf of new and renewed leasing (including holdovers). In 2022, 427,670 sf of our portfolio is up for renewal, including month-to-month tenants.

As at September 30, 2022, we have retained 89% (319,079 sf) of expiring leases and have received commitment on an additional 85,024 sf of future renewals. Pockets of opportunity exist across our portfolio and in all asset classes.

Property taxes and utilities were up 1% in the quarter and year-to-date. Utility costs, including heating costs, fluctuate year over year depending on weather conditions in the regions where our assets are located. Property tax increases were the result of increased mill rates over the prior year.

Operating expenses were up in both the quarter and year-to-date consistent with the timing of maintenance projects and inflationary pressures being felt across the industry.

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

(\$000s except as noted)	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Same asset NOI <sup>1</sup>	11,613	11,915	34,859	36,124
NOI before adjustments	11,613	11,915	34,859	36,124
Amortization of tenant incentives	(956)	(1,116)	(2,763)	(2,967)
Straight-line rent adjustment	225	42	366	64
Net rental income	10,882	10,841	32,462	33,221

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 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.

NOI and same-asset NOI are the same for both the three and nine months ended September 30, 2022 as no transactions were completed within the trailing 24 months. NOI was down 3% in the quarter and down 4% year-to-date due to the Early Termination event which inflated revenue and NOI in the comparative year-to-date results. Excluding the Early Termination event, year-to-date NOI up slightly over 2021.

### 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 2% in the quarter due to lower NOI. Year-to-date FFO was down 3%. Excluding the Early Termination event, year-to-date FFO was stable.

### Recreational Properties

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

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

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

Revenue in the Recreational Properties division increased by 4% to \$4.86 million in the quarter and 4% to \$9.62 million year-to-date. A long winter pushed golf course opening dates to the end of April, comparative to early April opening dates in 2021. This resulted in a decreased number of rounds played to date. This is

offset by efforts to focus on the clubhouses and food and beverage services, which is up 21% year-to-date over 2021.

	Ownership interest	Season opened 2022	Rounds of Golf
<i>Managed by Melcor:</i>			
Lewis Estates (Edmonton)	60%	April 22	28,540
The Links (Spruce Grove)	100%	April 22	27,213
Black Mountain (Kelowna)	100%	March 30	35,030
<i>Managed by a Third Party:</i>			
Jagare Ridge (Edmonton)	50%	April 29	23,549

	Ownership interest	Season opened 2021	Rounds of Golf
<i>Managed by Melcor:</i>			
Lewis Estates (Edmonton)	60%	April 2	32,319
The Links (Spruce Grove)	100%	April 2	30,893
Black Mountain (Kelowna)	100%	April 1	36,646
<i>Managed by a Third Party:</i>			
Jagare Ridge (Edmonton)	50%	April 14	27,498

### General & Administrative Expense

G&A expenses were up 22% in the quarter and 17% year-to-date. Community Development G&A was up due to increased activity in the division and the reversal of various cost constraint initiatives put in place in the comparative period. Our Investment Properties G&A was up due to one-time expenses and increased professional fees which include our 3rd party property appraisals, legal and accounting fees.

As a percentage of revenue, G&A was up slightly in the quarter at 10% (Q3-2021: 9%) and 11% year-to-date (YTD-2021: 9%). Management continues to prudently monitor and manage controllable expenses.

### Income Tax Expense

The statutory tax rate is 23% for the three and nine months ended September 30, 2022 (2021: 23%). Items that impacted the effective tax rate include permanent differences related to revaluation adjustments on investment properties, distributions to REIT unitholders and the non-taxable portion of REIT income.

## Liquidity & Capital Resources

The following table represents selected information as at September 30, 2022, compared with December 31, 2021.

As at (\$000s except as noted)	30-Sep-2022	31-Dec-2021
Cash & cash equivalents	82,453	59,920
Restricted cash	6,723	4,824
Accounts receivable	9,076	10,097
Agreements receivable	100,067	127,739
Revolving credit facilities	142,761	87,050
Accounts payable and accrued liabilities	52,041	50,476
Total assets	2,178,869	2,113,927
Total liabilities	1,019,012	997,458
Debt to equity ratio <sup>1</sup>	0.88	0.89

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

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

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

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

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

### Financing & Liquidity

Total liquidity (cash and MDL & REIT line availability) was \$159.70 million as at September 30, 2022 (December 31, 2021: \$126.66 million). Our total general debt outstanding was \$765.98 million as at September 30, 2022 (December 31, 2021: \$716.91 million).

A summary of our debt is as follows:

As at (\$000s)	30-Sep-2022	31-Dec-2021
Melcor - revolving credit facilities	137,752	87,050
REIT - revolving credit facility	5,009	–
Project specific financing	17,213	40,758
Secured vendor take back debt on land inventory	5,717	11,794
Debt on investment properties and golf course assets	532,201	506,382
REIT - convertible debentures	68,087	70,929
General debt	765,979	716,913

We are subject to financial covenants on our revolving credit facility. The covenants include a maximum debt to total capital ratio of 125%, a minimum debt service coverage ratio of 3.00, and a minimum net book value of shareholder's equity of \$300.00 million. As at September 30, 2022 and throughout the period, we were in compliance with our financial covenants.

We are also subject to financial covenants on the REIT's \$35.00 million revolving credit facility. The covenants include a maximum debt to total capital ratio of 60% (excluding convertible debenture), a minimum debt service coverage ratio of 1.25, and a minimum adjusted unitholders' equity of \$140 million. As at September 30, 2022 and throughout the period, we were in compliance with our financial covenants.

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

### Sources & Uses of Cash

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

(\$000s)	Three months ended	
	30-Sep-2022	30-Sep-2021
Cash flow from operating activities	8,634	10,789
Cash flow used in investing activities	(5,629)	(18)
Cash flow from (used in) financing activities	6,548	(2,854)

(\$000s)	Nine months ended	
	30-Sep-2022	30-Sep-2021
Cash flow from operating activities	7,477	46,489
Cash flow used in investing activities	(7,885)	(14,811)
Cash flow from (used in) financing activities	21,669	(7,297)

Cash flow from operating activities was \$8.63 million in Q3-2022 and \$7.48 million year-to-date (Q3-2021: \$10.79 million, YTD-2021: \$46.49 million). Cash flow from operating activities is significantly impacted by the timing of development and sales activity and settlement of working capital. Collections on agreements receivable were up \$16.48 million compared to 2021 due to timing of sales and receipts.

Development activities contributed to an increase in spending in the quarter at \$26.86 million and \$31.40 million year-to-date (Q3-2021 \$16.15 million, YTD-2021: \$17.39 million).

Operating assets and liabilities tend to fluctuate year over year depending on the timing of payments due and receivable, which resulted in cash inflow of \$9.06 million in Q3-2022 (Q3-2021: \$14.46 million). Year-to-date, operating assets saw cash outflow of \$9.16 million compared with cash inflow of \$26.17 million in 2021.

Tenant incentives and direct leasing costs were up in the quarter at \$5.34 million and \$9.94 million year-to-date (Q3-2021: \$1.86 million, YTD-2021: \$5.99 million). Our restricted cash balance also went up \$0.40 million related to deposits on US lot sales.

Cash flow used in investing activities was \$5.63 million in Q3-2022 and \$7.89 million used in year-to-date (Q3-2021: \$0.02 million, YTD-2021: \$14.81 million). We continue to develop commercial properties and invest in our portfolio, resulting in \$6.74 million of cash outflow in the quarter (Q3-2021: \$6.86 million). To date, Investments in properties under development in our Property Development division contributed \$8.68 million to cash outflows (YTD-2021: \$17.35 million).

Cash flow from financing activities was \$6.55 million in Q3-2022 and \$21.67 million year-to-date, compared to \$2.85 million used in Q3-2021, and \$7.30 million used in YTD-2021. Draws on the credit facility were \$27.99 million in Q3-2022 and \$55.71 million year-to-date (Q3-2021: \$12.34 million, YTD-2021: \$27.14 million). Draws on the credit facility were offset by net repayment on our general debt of \$8.11 million year-to-date in 2022 compared with net repayment of \$21.66 million YTD-2021.

We paid dividends of \$0.15 per share in Q3-2022 for a total of \$4.81 million compared to \$0.12 per share in Q3-2021 for a total of \$3.96 million. Year-to-date we have paid a total of \$13.98 million in dividends compared to \$10.58 million in 2021.

## Share Data

Melcor has been a public company since 1968 and trades under the symbol "MRD" on the Toronto Stock Exchange. As at September 30, 2022 there were 32,061,202 common shares issued and outstanding, 369,500 options, and 260,591 restricted share units. Each stock option and restricted share unit is convertible to one common share upon exercise or exchange. There is only one class of common shares issued.

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

There are no material changes to the above titled sections at September 30, 2022 in comparison to the December 31, 2021 annual MD&A. Refer to note 3 of the condensed interim consolidated financial statements for changes in accounting policies.

## Normal Course Issuer Bid

We have had active Normal Course Issuer Bids (NCIB) in place over the past year.

### Melcor Developments Ltd:

On April 1, 2022 Melcor commenced a new NCIB, which allows Melcor to purchase up to 1,641,627 shares for cancellation, representing approximately 5% of the issued and outstanding shares. The shares may be repurchased up to a maximum daily limit of 1,281. The price Melcor will pay for shares repurchased under the plan will be the market price at the time of acquisition. The NCIB ends one year from commencement on March 31, 2023. To date, we have purchased 772,312 common shares for cancellation under this plan.

Melcor has entered into an automatic share purchase plan (ASPP) agreement with a broker to allow shares to be purchased under the NCIB at times we would ordinarily not be active in the market due to regulatory restrictions or self-imposed blackout periods.

On April 1, 2021, Melcor commenced a Normal Course Issuer Bid (NCIB) which expired on March 31, 2022. Under this bid, we were allowed to purchase up to 1,654,553 common shares in total (approximately 5% of our issued and outstanding common shares) with a daily repurchase restriction of 3,781 common shares. We purchased 380,761 common shares for cancellation under this bid.

### Melcor REIT:

Also, on April 1, 2021 the REIT commenced a normal course issuer bid ("2021 NCIB") which expired on March 31, 2022. Under this bid, the REIT was allowed to purchase up to 652,525 trust units for cancellation, representing approximately 5% of the REIT's issued and outstanding trust units. The trust units were allowed to be repurchased up to a maximum daily limit of 3,824. The price which the REIT will paid for trust units repurchased under the plan was the market price at the time of acquisition. The REIT purchased a total of 89,507 units for cancellation under this plan.

The REIT did not renew its NCIB.

## 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)	Three Months Ended							
	30-Sept-22	30-Jun-22	31-Mar-22	31-Dec-21	30-Sept-21	30-June-21	31-Mar-21	31-Dec-20
Revenue	<b>61,136</b>	51,044	53,306	150,598	56,213	65,547	43,270	80,947
Net income (loss)	<b>23,774</b>	25,908	2,470	44,769	16,561	9,014	(14,033)	(112)
FFO <sup>1</sup>	<b>16,012</b>	11,853	10,697	42,311	12,516	16,326	10,174	21,908
Shares outstanding (basic)	<b>32,061,202</b>	32,623,921	32,832,559	32,961,015	32,966,423	33,066,649	33,086,061	33,091,061
<i>Per Share</i>								
Basic earnings (loss)	<b>0.73</b>	0.79	0.08	1.35	0.50	0.27	(0.42)	(0.01)
Diluted earnings (loss)	<b>0.73</b>	0.79	0.07	1.35	0.50	0.27	(0.42)	(0.01)
FFO basic <sup>2</sup>	<b>0.49</b>	0.36	0.33	1.28	0.38	0.49	0.31	0.66
FFO diluted <sup>2</sup>	<b>0.49</b>	0.36	0.32	1.28	0.37	0.49	0.30	0.66
Dividends	<b>0.15</b>	0.14	0.14	0.12	0.12	0.10	0.10	0.08
Book value <sup>2</sup>	<b>35.55</b>	34.78	33.81	33.87	32.69	32.10	31.98	32.56

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

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

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

## Subsequent Events

Refer to note 13 of the interim consolidated financial statements for information pertaining to subsequent events.

## Internal Control over Financial Reporting & Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were material changes to internal control over financial reporting during the quarter ended September 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Melcor has continually responded to the COVID-19 pandemic by following the guidelines set forth by the Alberta government, at a minimum. As a result, the majority of Melcor's employee base was working from home wherever practical until mid-March 2022. The remote work arrangements have not impacted the design of our internal controls. We will continue to monitor and mitigate the risks associated with changes to our control environment.

## Non-GAAP and Non-standard Measures

Throughout this MD&A, we refer to terms known as non-GAAP financial performance measures that are not specifically defined in the CPA Canada Handbook or in IFRS. These non-standard measures may not be comparable to similar measures presented by other companies. We use REALpac definitions for items such

as FFO except that, for FFO, we include an adjustment for amortization of deferred financing fees, which is included in non-cash financing costs.

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

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

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

### Investment Properties

(\$000s)	Three months ended		Nine months ended	
	September 30		September 30	
	2022	2021	2022	2021
<b>Segment Earnings</b>	<b>2,461</b>	4,523	<b>16,698</b>	19,322
Fair value adjustment on investment properties	<b>4,263</b>	395	<b>549</b>	(3,476)
General and administrative expenses	<b>505</b>	470	<b>2,201</b>	1,632
Interest income	<b>(8)</b>	–	<b>(14)</b>	(1)
Amortization of tenant incentives	<b>415</b>	406	<b>1,173</b>	1,214
Straight-line rent adjustment	<b>(1,347)</b>	(255)	<b>(1,998)</b>	(763)
<b>Divisional NOI</b>	<b>6,289</b>	5,539	<b>18,609</b>	17,928

## REIT

(\$000s)	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
<b>Segment Earnings</b>	<b>16,443</b>	12,666	<b>27,238</b>	33,691
Fair value adjustment on investment properties	<b>(6,337)</b>	(2,535)	<b>2,865</b>	(2,665)
General and administrative expenses	<b>783</b>	717	<b>2,381</b>	2,215
Interest income	<b>(7)</b>	(7)	<b>(22)</b>	(20)
Amortization of tenant incentives	<b>956</b>	1,116	<b>2,763</b>	2,967
Straight-line rent adjustment	<b>(225)</b>	(42)	<b>(366)</b>	(64)
<b>Divisional NOI</b>	<b>11,613</b>	11,915	<b>34,859</b>	36,124

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

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

**Fair value of investment properties:** Fair value of investment properties in the REIT Divisional results section of the MD&A is a supplementary financial measure and is calculated as the sum of the balance sheet balances for investment properties and other assets (TI's and SLR).

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

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

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

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

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

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

**Funds from operations (FFO):** FFO is a non\*GAAP financial measure and is defined as net income in accordance with IFRS, excluding (i) fair value adjustments on investment properties; (ii) gains (or losses) from sales of investment properties; (iii) amortization of tenant incentives; (iv) fair value adjustments, interest expense and other effects of redeemable

units classified as liabilities; (v) acquisition costs expensed as a result of the purchase of a property being accounted for as a business combination; (vi) adjustment for amortization of deferred financing fees, which is included in non-cash financing costs and (vii) fair value adjustment on derivative instrument, after adjustments for equity accounted entities, joint ventures and non-controlling interests calculated to reflect FFO on the same basis as consolidated properties. Further discussion over FFO, including a reconciliation from net income, can be found in the Funds from Operations section of the MD&A and in the tables below:

## Consolidated

(\$000s)	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
<b>Net income for the period</b>	<b>23,774</b>	16,561	<b>52,152</b>	11,542
Amortization of tenant incentives	<b>2,738</b>	2,102	<b>5,620</b>	5,922
Fair value adjustment on investment properties	<b>(3,070)</b>	(5,183)	<b>247</b>	(10,040)
Depreciation on property and equipment	<b>533</b>	509	<b>1,141</b>	1,107
Stock based compensation expense	<b>514</b>	254	<b>847</b>	762
Non-cash finance costs	<b>(2,619)</b>	(135)	<b>(7,911)</b>	4,147
Gain on sale of asset	<b>(29)</b>	(65)	<b>(37)</b>	(127)
Deferred income taxes	<b>(126)</b>	(879)	<b>11</b>	(604)
Fair value adjustment on REIT units	<b>(5,703)</b>	(648)	<b>(13,508)</b>	26,307
<b>FFO</b>	<b>16,012</b>	12,516	<b>38,562</b>	39,016

## Investment Properties

(\$000s)	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
<b>Segment Earnings</b>	<b>2,461</b>	4,523	<b>16,698</b>	19,322
Fair value adjustment on investment properties	<b>4,263</b>	395	<b>549</b>	(3,476)
Amortization of tenant incentives	<b>415</b>	406	<b>1,173</b>	1,214
<b>Divisional FFO</b>	<b>7,139</b>	5,324	<b>18,420</b>	17,060

## REIT

(\$000s)	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
<b>Segment Earnings</b>	<b>16,443</b>	12,666	<b>27,238</b>	33,691
Fair value adjustment on investment properties	<b>(6,337)</b>	(2,535)	<b>2,865</b>	(2,665)
Amortization of tenant incentives	<b>956</b>	1,116	<b>2,763</b>	2,967
<b>Divisional FFO</b>	<b>11,062</b>	11,247	<b>32,866</b>	33,993

**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.