

ANNUAL REPORT 2023

MELCOR | REIT

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FACTS & DATA¹

38

ASSETS

3.15M

SQUARE FEET GLA

\$73.9M

REVENUE

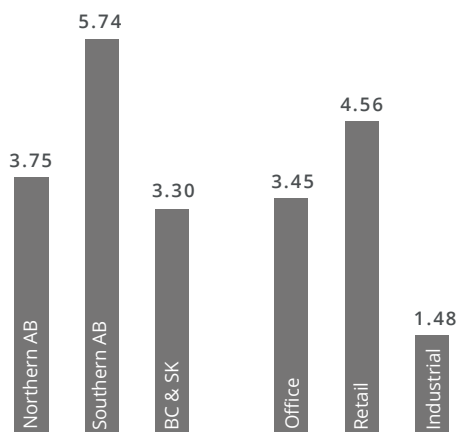
89%

ACFO PAYOUT RATIO²

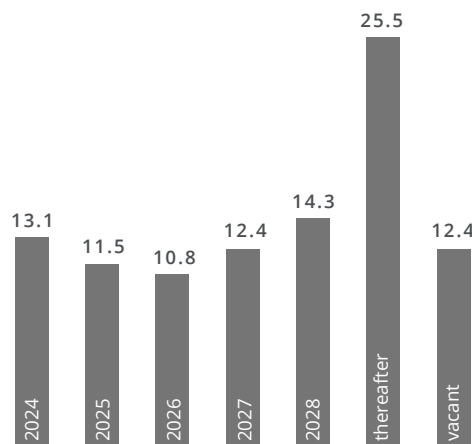
1. As at December 31, 2023.

2. Non-GAAP financial ratio. Refer to Non-GAAP Measures on page 36 of the MD&A for further information.

WEIGHTED AVERAGE LEASE TERM REMAINING (YEARS)



GROSS LEASABLE AREA EXPIRING (%)



MELCOR | REIT

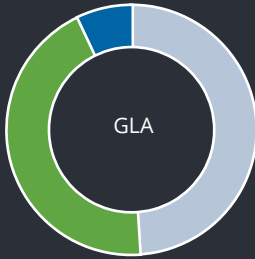
Melcor REIT is an unincorporated, open-ended real estate investment trust. We own, acquire, manage and lease quality retail, office and industrial income generating properties. As at May 10, 2024, our portfolio is made up of interests in 37 properties representing approximately 3.1 million square feet of gross leasable area located in and around Edmonton, Calgary, Lethbridge, Grande Prairie and Red Deer, Alberta; and Regina, Saskatchewan.

On February 22, 2024 the REIT announced the commencement of a strategic review process overseen by the REIT's Independent Committee. DLA Piper (Canada) LLP has been retained as legal counsel and BMO Capital Markets as financial advisor.

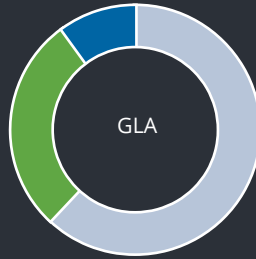
There is no assurance that the strategic review process will result in the REIT pursuing or consummating any transaction or alternative, nor any assurance as to its outcome or timing.

KEY METRICS

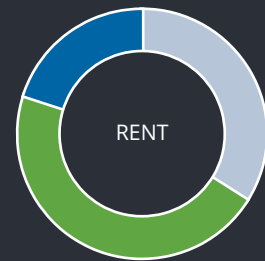
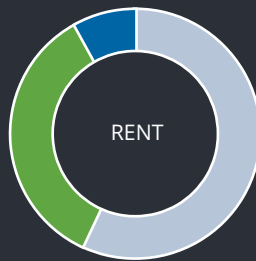
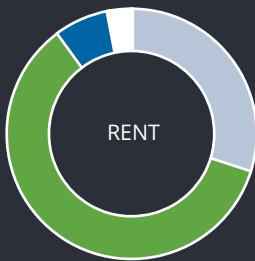
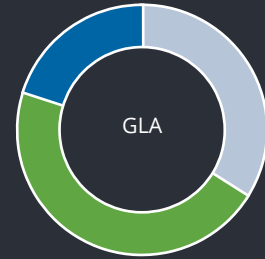
BY PROPERTY TYPE



BY REGION



BY TENANT PROFILE

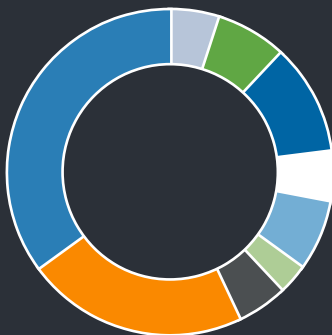


- Office
- Retail
- Industrial
- Land Lease

- Northern AB
- Southern AB
- BC & SK

- Local
- National
- Regional

GLA BY TENANT INDUSTRY



- Finance & Insurance - 5%
- Government - 7%
- Hospitality - 11%
- Industrial - 5%
- Medical - 7%
- Oil & Gas - 3%
- Other - 5%
- Professional - 22%
- Retail - 35%



- Auto Service - 3%
- Clothing - 22%
- Grocer/Pharmacy - 19%
- Home & Garden - 26%
- Liquor/Cannabis - 4%
- Personal Services - 10%
- Specialty - 16%

MESSAGE FROM THE CHAIR

RALPH YOUNG

2023 marked the tenth anniversary of Melcor REIT. While we celebrated this milestone, the REIT continued to navigate significant challenges in the real estate industry, particularly affecting office and retail commercial assets. The REIT's operations were negatively impacted by general economic conditions experienced by all commercial property REITs across Canada and the USA. Our portfolio of diversified real estate assets and our conservative financial strategies provided some relief compared to some of our small cap peers. Considering the many headwinds in the industry, our board is satisfied with the operating team's performance, which generated reasonable results in 2023.

The Alberta economy played a role in mitigating the impacts felt by comparable REITs across Canada. The REIT began exploring strategic alternatives and took proactive steps in early 2023 by listing non-core assets for sale, ramping up an aggressive leasing program, controlling non-essential capital expenditures and addressing upcoming financial obligations. We have now sold our assets in British Columbia, and continue to see interest in our listed assets in Saskatchewan and Lethbridge. While this work is ongoing, the anticipated outcomes have been slower to materialize than hoped.

In February 2024, the REIT board made the difficult decision to suspend distributions and at the same time engaged a strategic advisor. The distribution suspension will conserve financial resources while we reassess our strategic path forward. Our focus is to safeguard the REITs ongoing operational and financial health.

The board of trustees managed the transition of two valued trustees, Larry Pollock and Carolyn Graham, who both served with distinction through challenging times. Mr. Pollock, a founding and Lead Trustee, offered

invaluable guidance over the past decade. Ms. Graham, as Chair of the Audit Committee, provided expert advice on finance, financial reporting and good governance.

We welcomed new trustees Barry James and Brandon Kot, whose extensive experience in finance and real estate and fresh perspective will benefit the Board. Richard Kirby has taken on the role of Lead Trustee and Chair of the Governance Committee and the Independent Committee.

Following recommendations from the Independent Committee, the Board appointed BMO as financial advisor and DLA Piper (Canada) LLP as legal advisor to assist the REIT in determining the best possible future outcome for stakeholders. The board has not set a timeline or other expectation for the strategic review process and will continue to manage its assets in the best interests of unitholders.

I am grateful to our trustees and the contracted management team from Melcor Developments for their commitment and exceptional service during the ongoing challenges being faced by the REIT. The board is confident that our assets, management, governance and a refreshed strategy will lead to a positive and responsible outcome for the REIT.



MESSAGE FROM THE CEO

ANDREW MELTON

It is my privilege to report on the REIT's 2023 results. The year was characterized by rising costs due to inflation, elevated interest rates and a shifting market landscape, particularly in office real estate. Despite these headwinds, we stayed true to our philosophy of focusing on real estate fundamentals, resulting in stable operating performance and another year of strong leasing activity.

The challenges we face today are not from operational inefficiencies but rather from broader economic factors impacting cash flow. These rising costs are felt across the industry and are not unique to our properties.

In 2022, inflation and rapidly rising interest rates hit hard. The Bank of Canada's key interest rate spiked from 0.25% in March to 4.25% by the end of 2022, and has remained steady at 5.00% since July 2023. This rapid increase eliminated any opportunity to adapt strategically and has been particularly problematic for REIT's.

Our approach this past year was methodical, concentrating on debt reduction to curtail interest expense and fortify our balance sheet. We reduced debt by 7% or \$40 million. We also strategically listed assets outside of Alberta and in Lethbridge for sale. We sold Kelowna Business Centre in early 2023, and as of May 10, 2024, we've sold our remaining Kelowna asset, Richter Street. We continue to see interest in our Saskatchewan and Lethbridge properties. Our intention is to create liquidity and concentrate our remaining assets in the markets we know best.

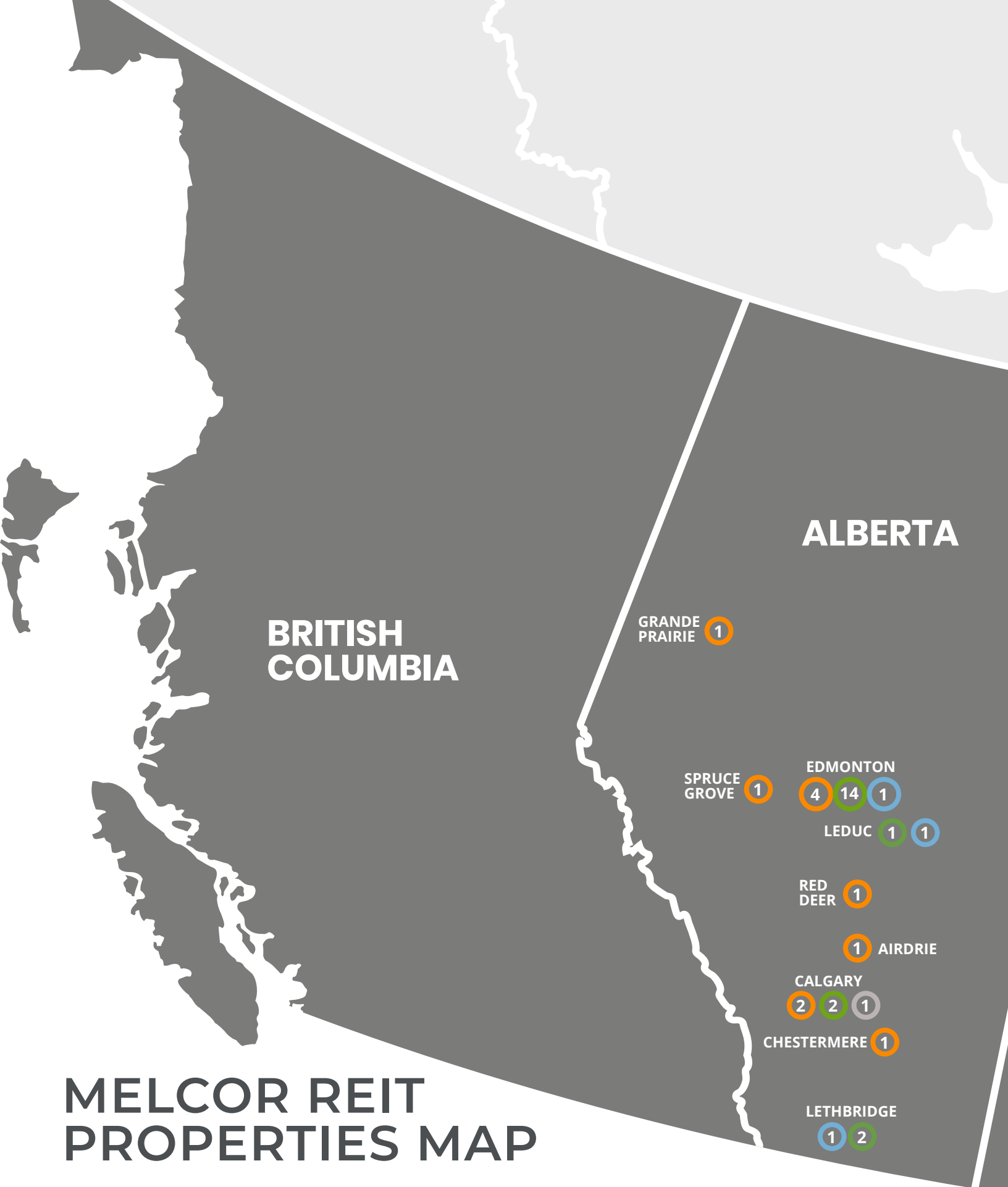
Our property management, leasing, and corporate support teams continue to excel, enhancing the quality of service and tenant care. This has been pivotal in achieving a high tenant retention rate and an increase in committed occupancy. Our retention rate was strong at

88% up from 86% in 2022. Occupancy remained stable at 88% with committed occupancy of 89%. Our average rent (WABR) improved 3% to \$17.06 per square foot and the average lease term remaining increased to 4.31 years, up from 4.25 years at the end of 2022. Each of these improvements is a solid testament to management's effectiveness in focusing on the things it can control. We will remain focused on those things, including the tenant experience and engaging new tenants to fill vacancies to mitigate rising costs.

With our \$46 million debenture maturing this December, we are focused on cash management. In addition to the debenture, operating cash outlays are up across the board – incentives to close tenants, finance costs, and operating and capital expenditures – exerting pressure on operating cash flow. As a result, the Board of Trustees made the prudent decision to suspend distributions and initiated a strategic review process to evaluate alternatives for maximizing unitholder value. This process is overseen by the Independent Committee (Richard Kirby, chair, Barry James and Bernie Kollman) and is supported by management. To date, the Independent Committee has engaged DLA Piper (Canada) LLP as legal and BMO Capital Markets as financial advisors.

As we forge ahead, our agenda is clear: to focus on managing our debt efficiently, keeping our properties in excellent condition, and ensuring the sustainability of our operations as we await any eventuality or outcome of the strategic review process.





MELCOR REIT PROPERTIES MAP

SASKATCHEWAN

REGINA

3 2

OFFICE BUILDINGS	LOCATION	GLA	OCCUPANCY
100 Street Place	Edmonton	44,295	73%
10117 Jasper Avenue	Edmonton	134,602	61%
Birks Building	Edmonton	35,106	94%
Capilano Centre	Edmonton	45,487	70%
Crowfoot Building	Calgary	69,365	85%
Executive Terrace	Regina	41,982	82%
Kensington Road	Calgary	23,932	100%
LFS Building	Lethbridge	33,196	100%
Melcor Centre	Lethbridge	449,862	92%
Melton Building	Edmonton	114,612	58%
Parliament Place	Regina	28,663	90%
Princeton Place	Edmonton	61,222	78%
Select Building	Edmonton	23,432	100%
Stanley Buildings	Edmonton	34,949	94%
Sterling Centre	Edmonton	69,491	88%
Trail Business Centre	Edmonton	79,578	70%
Village at Blackmud Creek	Edmonton	48,335	98%
Westcor Building	Edmonton	73,373	33%
Westgate Centre	Edmonton	75,088	100%
White Oaks Square	Edmonton	30,521	89%

RETAIL BUILDINGS	LOCATION	GLA	OCCUPANCY
Chestermere Station	Chestermere	84,615	100%
Coast Home Centre	Edmonton	59,854	79%
Kingsview Market	Airdrie	99,987	100%
Leduc Common	Leduc	283,346	100%
Liberty Crossing	Red Deer	64,240	76%
Market Mall	Regina	42,912	93%
Melcor Crossing	Grande Prairie	283,111	92%
Staples Centre	Calgary	23,238	100%
The District	Calgary	56,084	100%
Towers Mall	Regina	113,493	100%
University Park Mall	Regina	41,380	80%
Village at Blackmud Creek	Edmonton	9,046	87%
West Henday Promenade	Edmonton	77,970	98%
Westgrove Common	Spruce Grove	29,384	100%
White Oaks Square	Edmonton	127,827	98%

INDUSTRIAL BUILDINGS	LOCATION	GLA	OCCUPANCY
Lethbridge Industrial	Lethbridge	49,005	100%
Telford	Leduc	143,118	100%
TKE Building	Edmonton	15,968	100%

LAND LEASE COMMUNITY	LOCATION	UNITS	OCCUPANCY
Watergrove	Calgary	308	100%

Richter Street (office, Kelowna, BC) sold on May 10, 2024.

CORPORATE GOVERNANCE

We are committed to effective corporate governance practices as a core component of our operating philosophy. Strong governance practices lay the foundation for a sustainable company and long-term value creation for our unitholders. As governance practices evolve, we periodically review, evaluate and enhance our governance program. Here are a few highlights of our program:

INDEPENDENCE

The majority of our trustees are independent. Committees are comprised of 100% independent trustees. The independent trustees meet *in camera* (without management and related trustees) for a portion of each in person meeting held. As our chairman is related, we have appointed a lead trustee, Richard Kirby, who is independent. Mr. Kirby chairs the *in camera* sessions and ensures that the board conducts itself in accordance with good governance practices. Each of the arrangements with Melcor (Asset Management, Property Management and Development and Opportunities Agreements) require the agreement of the majority of independent trustees, providing independent oversight on all transactions to represent the interests of minority unitholders.

ALIGNMENT WITH UNITHOLDERS

Effective July 1, 2023, all trustees and officers are required to hold the dollar-value equivalent of two times the annual trustee retainer, ensuring alignment with unitholder interests and a focus on long-term value creation. Additional information on our governance practices can be found in our 2024 Information Circular.

INTEGRITY: THE HEART OF OUR BUSINESS

The highest standard of ethical conduct has always been at the heart of our operating philosophy. All employees, trustees and officers follow our Code of Business Conduct and Ethics, which governs the work environment, regulatory compliance and the protection of our assets and reputation. The Code can be found on our website at MelcorREIT.ca. Melcor employees who manage our properties follow the Melcor Code of Business Conduct & Ethics, which is essentially the same.

STRATEGIC PLANNING PROCESS

The board ensures that we establish a solid strategy designed to optimize unitholder value. This process includes active consultation with management on the issues, business environment, assumptions, goals and financial budgets that underpin the strategy and ensures that risk levels are appropriate. To keep the board fully informed and engaged in the strategic issues and critical risks of our business, one meeting each year is dedicated to a strategic review of the portfolio and its operation.

2024 BOARD OF TRUSTEES



Barry James
FCA, FCPA, ICD.D

Edmonton, Alberta, Canada

Independent
Corporate Director

Trustee since	2024
Attendance	n/a
Compensation	n/a
Unitholdings	2,800
Committees ¹	Audit ³ , Independent



Richard Kirby
MBA, LLB, ICD.D

Edmonton, Alberta, Canada

Independent
President, Midnight Sun Financial

Trustee since	2019
Attendance	91%
Compensation	\$37,500
Unitholdings	—
Committees ¹	Audit, Governance ³ , Independent ³

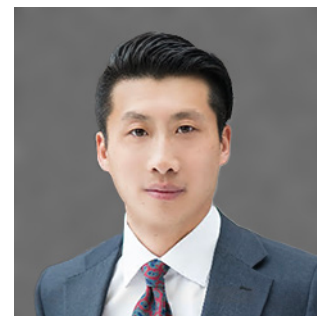


Bernie Kollman
ICD.D

Edmonton, Alberta, Canada

Independent
Corporate Director

Trustee since	2021
Attendance	100%
Compensation	\$39,000
Unitholdings	10,000
Committees ¹	Audit, Governance, Independent



Brandon Kot

Edmonton, Alberta, Canada

Independent
Managing Partner, Canada ICI

Trustee since	2024
Attendance	n/a
Compensation	n/a
Unitholdings	—
Committees ¹	Audit, Governance



Andrew Melton

Calgary, Alberta, Canada

Related³
CEO, Melcor REIT

Trustee since	2013
Attendance	100%
Compensation	\$—
Unitholdings	144,025
Committees ¹	—



Naomi Stefura
MPAcc, CA

Edmonton, Alberta, Canada

Related³
COO & CFO, Melcor Developments

Trustee since	2022
Attendance	100%
Compensation	\$—
Unitholdings	21,560
Committees ¹	—



Ralph Young
MBA, PEng

Edmonton, Alberta, Canada

Related³ (Chair)
Corporate Director

Trustee since	2013
Attendance	100%
Compensation	\$41,500
Unitholdings	26,800
Committees ¹	—

NOTES

1. All trustees are members of the Investment Committee, which did not meet in 2023.
2. Barry James and Brandon Kot were appointed to the Board on April 16, 2024.
3. Denotes committee chair.
4. Mr. Melton and Mr. Young are directors and Ms. Stefura is the Chief Operating Officer and Chief Financial Officer of Melcor Developments, which owns 55.4% of the voting units of the REIT. They are the Melcor nominees to the REIT board.

ENVIRONMENTAL COMMITMENT SOCIAL RESPONSIBILITY & GOVERNANCE

The REIT is committed to corporate sustainability — in environmental practice, social responsibility, governance of our Trust and as stewards of the areas where we operate. Attaining best practice in all aspects of our business is our constant aspiration.

ENVIRONMENTAL COMMITMENT

Our property management practices are designed to improve operating efficiency and reduce cost while at the same time increasing client satisfaction and retention rates. Our capital spending strategy focuses on equipment upgrades and maintenance initiatives that will reduce energy consumption. Key examples of our commitment to sustainability and environmental best practices include:

- LED lighting implemented in all properties.
- Motion-sensing lights utilized in 80% of office properties to conserve electricity.
- Active recycling programs in all buildings.
- From 2012 to 2023, we have monitored 12 properties, achieving:
 - 18% reduction in electricity consumption, or CO2 equivalent of 10,400 tonnes.
 - 22% reduction in natural gas consumption, or CO2 equivalent of 1,200 tonnes.
 - 51% decrease in emission intensity, or CO2 equivalent of 14,200 tonnes.

SOCIAL RESPONSIBILITY

Melcor Developments Ltd., our asset and property manager, continues to cultivate a diverse, inclusive, and safe work environment, placing people at the core of its strategy. Key initiatives include:

- Doubling the benefits for psychological services.
- Management training like The Working Mind to recognize and manage mental health issues.
- Maintaining diversity with 51% of the management team being female and 30% visible minorities, and half of the executive team is also female.

GOVERNANCE

Our commitment to robust corporate governance practices remains integral to our operating philosophy, ensuring sustainability and long-term value for our unitholders. Significant governance practices as of December 31, 2023, include:

- Majority of trustees (4 of 7) are independent, with an independent lead trustee overseeing board activities.
- 43% of the full board and half of the REIT's executive team are female.
- All arrangements with Melcor are reviewed by a majority of independent trustees, safeguarding minority unitholder interests.
- Introduction of a minimum unitholdings requirement for trustees effective July 1, 2023, where trustees must hold the dollar-value equivalent of two times the annual trustee retainer.
- Continuous annual review of our corporate governance practices to align with industry best practices.
- The audit, compensation and governance, and independent committees are comprised of 100% independent trustees.

DIGITAL MEETING

We are pleased to present our 11th annual unitholder meeting digitally.

You may vote in advance or online during the meeting by following the instructions included in your meeting package.

Tuesday, June 25, 2024 | 9:30 am MT

Meeting Access: web.lumiagm.com
Meeting ID: 289 110 059
Meeting Password: MRUN24

PROXY DEADLINE:

Friday, June 21, 2024 | 9:30 am MT

AGM MATERIALS: melcorreit.ca/2024AGM

UPCOMING REPORTING DATES

Q2-2024 – July 30, 2024

Q3-2024 – November 4, 2024

FY/Q4-2024 – TBD

Dates are subject to change without notice. Visit MelcorREIT.ca for current information.

MEL | CARE

TENANT SERVICES

We invite tenants to submit service requests online at melcare.ca.

CORPORATE & UNITHOLDER INFORMATION

TSX LISTINGS

Units: **MR.UN**

5.10% Convertible Debenture: **MR.DB.B**

LEGAL COUNSEL

Bryan & Company LLP

AUDITORS

PricewaterhouseCoopers LLP

INVESTOR RELATIONS

P. 1.855.673.6937

E. IR@MelcorREIT.ca

2023 TAX INFORMATION (RETURN OF CAPITAL CLASSIFICATION)

Regular income - 49.45%

Capital Gain - 33.65%

Return of capital - 16.90%

UNITHOLDER SERVICES

Odyssey Trust

Trader's Bank Building
702 67 Yonge Street
Toronto, ON M5E 1J8

1.888.290.1175

<https://odysseycontact.com>

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