Press Release

for immediate distribution

Melcor REIT announces Q4 and 2020 annual results

Edmonton, Alberta | March 4, 2021

Annual Highlights

- Rental revenue of $74.57 million for growth of 5% over 2019.
- Net rental income of $43.33 million for growth of 2% over 2019.
- Adjusted cash flow from operations (ACFO) remained stable over 2019 at $18.58 million.
- ACFO per unit decreased by 3% over 2019 at $0.64 per unit.
- Debt to Gross Book Value (GBV) ratio of 50%. Debt to GBV ratio of 59% including convertible debentures, below maximum threshold of 65%.
- Distributions of $0.44 per unit paid out ($0.05625 per unit for the months of January - March and $0.03 per unit for the months of April - December).
- ACFO payout ratio of 69% (FFO: 51%) compared to 102% (FFO: 74%) in 2019.
- Q1-2021 distributions have been set at $0.035, a 17% increase.

Quarterly Highlights

- Rental revenue of $18.74 million for an increase of 3% over Q4-2019.
- Net rental income of $11.12 million, for an increase of 4% over Q4-2019.
- ACFO of $5.28 million or $0.18 per unit for an increase of 22% over Q4-2019.

Melcor REIT (TSX: MR.UN) today announced results for the fourth quarter and year ended December 31, 2020. Rental revenue grew 5% to $74.57 million compared to 2019. The growth was driven by third-party acquisitions completed in 2019: Melcor Crossing and Staples Centre which contributed revenues of $8.15 million during 2020. Adjusted cash flow from operations (ACFO) was consistent over 2019 at $18.58 million with a decrease in ACFO per unit of 3% over the prior year at $0.64. ACFO better reflects our cash position and therefore our ability to pay distributions by excluding accretion expense, which is a non-cash item.

Darin Rayburn, CEO of Melcor REIT commented: "2020 interrupted our regularly scheduled programming. In an effort to conserve cash to be in the best position to support our tenants through the uncertain world that COVID-19 presented, we focused on our goal of keeping our balance sheet strong and helping our tenants survive. We believe that this focus was in the best interest of all stakeholders, including our unitholders. While it was a difficult year, the REIT operations team demonstrated they were definitely up for the challenge. Their resiliency, commitment and bravery in the face of unending change has been commendable.

We continued to focus on leasing and building relationships with our tenants – the very heart of the Melcor REIT. Despite COVID, our tenant retention rate was a very healthy 83% and we leased 87,000 sf to new tenants. Between new leases and renewals we leased 56% more space (based on gross leasable area) that we did in 2019.

No one could have predicted how 2020 would play out. On behalf of the board of Trustees and all Unitholders, I am incredibly grateful to the REIT team responsible for building even stronger relationships with tenants, keeping COVID cases contained (the REIT received fewer than 10 notifications of possible infections at tenant sites), and proving that we could survive a year like 2020.

We are also grateful to our Unitholders for their continued support through this tumultuous year. We are committed to doing everything possible to protect your investment for the long term."

2020 Highlights:

We are pleased with the performance of our portfolio throughout the challenges of 2020, where the COVID-19 pandemic complicated our already challenged markets. We remain proactive in renewing existing tenants and achieved a healthy retention rate of 82.8% for the year. In spite of the challenging market, interest in new leasing continued and we leased 87,189 sf to new tenants. Occupancy remained stable at 87.6%.

As described in the Significant Event - COVID-19 section of this MD&A, COVID-19 had significant impacts on 2020 results as follows:

- Our portfolio was revalued, resulting in fair value losses of $62.75 million.
- We recorded bad debt expense of $1.04 million and forgave $0.71 million in rent on a net basis related to the CECRA program.
- We recognized $53.05 million in fair value gains on the valuation of our Class B LP Units due to the 41% decrease in unit value compared to December 31, 2019.

FINANCIAL HIGHLIGHTS

- Third party acquisitions completed in 2019 contributed to portfolio growth of 12% based on sf, and to revenue growth of 3% in the quarter and 5% for the year. As a result of these acquisitions, NOI also had growth of 6% for the quarter and 3% for the year. The growth in our portfolio was offset by the negative impacts of COVID-19 described above and lower same-asset revenue on account of lower lease rates and higher average vacancy.
- Net income in the current and comparative periods is significantly impacted by fair value adjustments on investment properties due to changes in NOI/capitalization rates and by non-cash fair value adjustments on Class B LP Units due to changes in the REIT's unit price. Management believes funds from operations (FFO) is a better reflection of our true operating performance. FFO was $25.25 million or $0.86 per unit (basic), down 1% from 2019 as a direct result of lower same-asset NOI.
- Adjusted cash from operations (ACFO) was $18.58 million or $0.64 per unit (2019 - $18.61 million or $0.66 per unit). Management believes that ACFO best reflects our cash position and therefore our ability to pay distributions. The REIT reduced its monthly distribution from April - December 2020 in anticipation of lower ACFO. We subsequently increased the distributions set for Q1-2021 by 17% to $0.035 per unit per month.
- As at December 31, 2020 we had $3.74 million in cash and $25.00 million in additional capacity under our revolving credit facility.

OPERATING HIGHLIGHTS

- We continued to execute on our proactive leasing strategy to both retain existing and attract new tenants. We completed lease renewals representing 258,661 sf (including holdovers) for a retention rate of 82.8% at December 31, 2020. New leasing has been steady across the portfolio with 87,189 sf in new deals commencing in 2020 and an additional 68,438 sf in committed leasing for future occupancy.
- Same-asset NOI was up 3% in the quarter due to timing of operating costs as well as lower non-recoverable costs. Full year same-asset NOI was down 6% over 2019 due to the drag from the large tenant that vacated a downtown Edmonton office building on October 1, 2019, provisions for bad debts and write-offs related to the CECRA program as well as charges related to lease restructuring.

CREATING UNITHOLDER VALUE

- In 2020 we paid monthly distributions of $0.05625 per trust unit for the months of January to March and $0.03 per trust unit for the months of April to December for a FFO payout ratio of 51% (2019 - 74%) and an ACFO payout ratio of 69% (2019 - 102%).

- On April 1, 2020 we commenced a new NCIB. We are entitled to purchase up to 655,792 trust units for cancellation, representing approximately 5% of the REIT's issued and outstanding trust units. The maximum daily purchase limit is 3,207 units, purchased at market price. Under this NCIB, we purchased 59,526 units for $0.21 million at a weighted average cost of $3.50 per unit or 36% of book value. Including units purchased under the prior NCIB, we purchased a total of 82,790 units for $0.34 million in 2020. The NCIB ends on March 31, 2021.
- We suspended purchases under the NCIB and cancelled our ASPP on May 15, 2020 as part of our cash conservation program (re: COVID-19). We do intend to continue purchases under the NCIB when our current trading blackout is lifted. We also intend to apply for a new NCIB to continue the program.

SUBSEQUENT EVENTS

- On January 14, 2021 we declared a distribution of $0.035 per trust unit for the months of January, February and March 2021. The distribution represents a 17% increase in the REIT's distribution in response to 2020 results and our operating and cash flow outlook for 2021.
- The REIT's Board announced it had formally established an Independent Committee to examine and recommend regular renewals and/or amendments to agreements between Melcor Developments Ltd. and the REIT and other matters as directed by the Board. The Independent Committee will be chaired by independent and Lead Trustee Larry Pollock.

Financial Highlights

	Three-months ended December 31			Year ended December 31		
($000s)	**2020**	**2019**	**△%**	**2020**	**2019**	**△%**
Non-Standard KPIs						
Net operating income (NOI)	**12,186**	11,446	6 %	**46,456**	45,300	3 %
Same-asset NOI	**10,975**	10,703	3 %	**41,705**	44,193	(6)%
Funds from Operations (FFO)	**6,590**	6,002	10 %	**25,250**	25,581	(1)%
Adjusted Funds from Operations (AFFO)	**5,144**	4,232	22 %	**18,127**	18,485	(2)%
Adjusted Cash Flows from Operations (ACFO)(9)	**5,283**	4,315	22 %	**18,582**	18,610	— %
Rental revenue	**18,742**	18,273	3 %	**74,572**	71,159	5 %
Income before fair value adjustment and taxes	**4,248**	2,479	71 %	**14,396**	11,845	22 %
Fair value adjustment on investment properties(5)	**(2,917)**	(1,364)	nm	**(62,748)**	(1,622)	nm
Cash flow from operations	**2,832**	2,467	15 %	**13,786**	9,309	48 %
Distributions to unitholders	**1,174**	2,216	(47)%	**5,739**	8,882	(35)%
Distributions(7)	**$0.09**	$0.17		**$0.44**	$0.68	
Per unit metrics						
Net (loss)/income						
Basic	**($1.20)**	($0.40)		**$0.44**	($0.04)	
Diluted	**($1.20)**	($0.40)		**($1.38)**	($0.04)	
Weighted average number of units for net income/ (loss) ($000s):(6)						
Basic	**13,050**	13,137	(1)%	**13,074**	13,162	(1)%
Diluted	**13,050**	13,137	(1)%	**29,200**	13,162	122 %
FFO						
Basic	**$0.23**	$0.21		**$0.86**	$0.91	
Payout ratio	**40 %**	81 %		**51 %**	74 %	
AFFO						
Basic	**$0.18**	$0.15		**$0.62**	$0.65	
Payout ratio	**51 %**	114 %		**71 %**	103 %	
ACFO(9)						
Basic	**$0.18**	$0.15		**$0.64**	$0.66	
Payout ratio	**50 %**	112 %		**69 %**	102 %	
Weighted average number of units for FFO & AFFO & ACFO (000s):(8)						
Basic	**29,176**	28,703	2 %	**29,200**	28,226	3 %
Diluted	**36,344**	36,640	(1)%	**36,368**	33,763	8 %

	31-Dec-20	**31-Dec-19**	**r%**
Total assets ($000s)	**724,658**	783,534	(8)%
Equity ($000s)(1)	**289,055**	289,873	— %
Debt ($000s)(2)	**449,658**	454,013	(1)%
Weighted average interest rate on debt	**3.68 %**	3.78 %	(3)%
Debt to GBV, excluding convertible debentures (maximum threshold - 60%)	**50 %**	50 %	(1)%
Debt to GBV (maximum threshold - 65%)	**59 %**	59 %	(1)%
Finance costs coverage ratio(3)	**2.34**	2.45	(4)%
Debt service coverage ratio(4)	**2.53**	2.26	12 %

Operational Highlights

	31-Dec-20	31-Dec-19	r%
Number of properties	39	39	0 %
Gross leasable area (GLA) (sf)	3,208,298	3,208,950	— %
Occupancy (weighted by GLA)	87.6 %	88.0 %	—%
Retention (weighted by GLA)	82.8 %	59.6 %	39 %
Weighted average remaining lease term (years)	3.96	4.37	(9)%
Weighted average base rent (per sf)	$16.67	$16.79	(1)%

1. *Calculated as the sum of trust units and Class B LP Units at their book value. In accordance with IFRS the Class B LP Units are presented as a financial liability in the consolidated financial statements.*
2. *Calculated as the sum of total amount drawn on revolving credit facility, mortgages payable, Class C LP Units, excluding unamortized fair value adjustment on Class C LP Units, liability held for sale and convertible debentures, excluding unamortized discount and transaction costs.*
3. *Calculated as the sum of FFO and finance costs; divided by finance costs, excluding distributions on Class B LP Units and fair value adjustment on derivative instruments. This metric is not calculated for purposes of covenant compliance on any of our debt facilities. Please refer to page 24 of the MD&A for further discussion and analysis.*
4. *Calculated as FFO; divided by sum of contractual principal repayments on mortgages payable and distributions of Class C LP Units, excluding amortization of fair value adjustment on Class C LP Units. This metric is not calculated for purposes of covenant compliance on any of our debt facilities. Please refer to page 24 of the MD&A for further discussion and analysis.*
5. *The abbreviation nm is shorthand for not meaningful and is used through this MD&A where appropriate.*
6. *For the purposes of calculating per unit net income/(loss) the basic weighted average number of units includes Trust Units and the diluted weighted average number of units includes Class B LP Units and convertible debentures, to the extent that their impact is dilutive.*
7. *Distributions for the current and comparative periods have been paid out at a rate of $0.05625 per unit per month for the months of January - March and $0.03 per unit for the months of April - December. Distributions for the comparative periods have been paid out at a rate of $0.05625 per unit per month.*
8. *For the purposes of calculating per unit FFO, AFFO and ACFO the basic weighted average number of units includes Trust Units and Class B LP Units.*
9. *In Q4-2019 we amended our definition of amortization of deferred financing fees to exclude accretion on convertible debenture. Amortization of deferred financing fees is an adjusting item in the calculation of ACFO. This change has been applied retroactively.*

MD&A and Financial Statements
Information included in this press release is a summary of results. This press release should be read in conjunction with Melcor REIT's 2020 consolidated financial statements and management's discussion and analysis, which can be found on the REIT’s website at www.MelcorREIT.ca or on SEDAR (www.sedar.com).

Conference Call & Webcast
Unitholders and interested parties are invited to join management on a conference call to be held March 5, 2021 at 11:00 AM ET (9:00 AM MT). Call 1-416-915-3239 in the Toronto area; 800-319-4610 toll free.

The call will be webcast at www.gowebcasting.com/11057. A replay of the call will be available shortly after the call is concluded at the same address.

Annual General Meeting
We invite unitholders to join us at Melcor REIT's annual meeting on May 20, 2021 at 9:30 am. As we are unable to predict if restrictions on gathering size will be in place at the time of our AGM, the REIT will issue a press release with specific location and dial in information closer to the meeting date and prior to the proxy deadline date.

About Melcor REIT
Melcor REIT is an unincorporated, open-ended real estate investment trust. Melcor REIT owns, acquires, manages and leases quality retail, office and industrial income-generating properties with exposure to high growth western Canadian markets. Its portfolio is currently made up of interests in 39 properties representing approximately 3.21 million square feet of gross leasable area located across Alberta and in Regina, Saskatchewan; and Kelowna, British Columbia. For more information, please visit www.MelcorREIT.ca.

Non-standard Measures
NOI, FFO, AFFO and ACFO are key measures of performance used by real estate operating companies; however, they are not defined by International Financial Reporting Standards (“IFRS”), do not have standard meanings and may not be comparable

with other industries or income trusts. These non-IFRS measures are more fully defined and discussed in the REIT’s management discussion and analysis for the period ended December 31, 2020, which is available on SEDAR at www.sedar.com.

Forward-looking Statements:

This press release may contain forward-looking information within the meaning of applicable securities legislation, which reflects the REIT's current expectations regarding future events. Forward-looking information is based on a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond the REIT's control, that could cause actual results and events to differ materially from those that are disclosed in or implied by such forward-looking information. Such risks and uncertainties include, but are not limited to, general and local economic and business conditions; the financial condition of tenants; the REIT’s ability to refinance maturing debt; leasing risks, including those associated with the ability to lease vacant space; and interest rate fluctuations. The REIT’s objectives and forward-looking statements are based on certain assumptions, including that the general economy remains stable, interest rates remain stable, conditions within the real estate market remain consistent, competition for acquisitions remains consistent with the current climate and that the capital markets continue to provide ready access to equity and/or debt. All forward-looking information in this press release speaks as of the date of this press release. The REIT does not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise. Additional information about these assumptions and risks and uncertainties is contained in the REIT’s filings with securities regulators.

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