Press Release

for immediate distribution

Melcor REIT announces Q4 and 2023 annual results

Edmonton, Alberta | March 5, 2024

Melcor Real Estate Investment Trust ("Melcor REIT" or the "REIT") (TSX: MR.UN) today announced results for the fourth quarter and year ended December 31, 2023. The annual Management Discussion & Analysis and Condensed Interim Financial Statements are available on our website (www.MelcorREIT.ca) under Financial Reports, or on SEDAR+ (www.sedarplus.ca)

Andrew Melton, CEO of Melcor REIT commented: "In the face of persistent challenges, including escalating finance costs and the ongoing impact of inflation on operating and leasing expenses, we remain steadfast in our commitment to navigate these hurdles within our investment property portfolio. Our focus remains on tenant retention and actively leasing vacant space to offset the effects of rising costs.

We anticipate sustained pressure on operational cash flow due to several factors including reduction in office lease rates, heightened tenant incentive and capital expenditure costs, increasing operational expenses, and continued higher financing costs. Despite these challenges, we remain focused on optimizing operational efficiency and maximizing revenue generation to mitigate the financial strain and ensure long-term sustainability in this dynamic environment.

Earlier in the year, we listed our Saskatchewan properties for sale as part of a strategic decision to focus on our Alberta markets and create additional liquidity for future opportunities and to focus on remaining assets and financial resilience. We have also since listed our remaining asset in Kelowna for sale as well as a building in Lethbridge. We have seen interest on these asset listings, and sales efforts continue.

On May 1, 2023 we celebrated REIT's 10th year of business. Through this period, the REIT has faced headwinds of significant economic challenges, yet has consistently posted stable results."

Ralph Young, Chair of Melcor REIT commented on subsequent events which have occurred since the end of fiscal year 2023: "In the face of business and financial issues facing the REIT, the board has made the decision to suspend distributions and to pursue a process of evaluating strategic business alternatives, as was announced in its press release on February 22, 2024. Many REITs in Canada and abroad, particularly those owning commercial office assets, have faced similar issues of declining space demand, increasing costs of operations and financing, as well as reduced access to capital markets and other traditional real estate financing. The board believes that its recent decisions will be important to ensure the ongoing business and financial strength of the Trust.

I want to express deep appreciation to retiring board members Larry Pollock and Carolyn Graham, both who have served the Melcor REIT with dedication and professionalism. Mr Pollock has served since the Trust was created in 2013 and has served as Lead Trustee and Chair of the Governance Committee. I am pleased to announce that independent trustee Richard Kirby has agreed to serve as Lead Trustee and will also Chair the Independent Committee of the Board. The Independent Committee will lead the initiative to review strategic alternatives."

FINANCIAL HIGHLIGHTS[1]:

Financial highlights of our performance are summarized below:

Fourth Quarter:

- Revenue was down 2% at $18.50 million (Q4-2022 - $18.80 million).
- NOI was up 1% to $11.53 million (Q4-2022- $11.46 million).
- FFO was down 2% to $5.65 million or $0.19 per unit (Q4-2022 - $5.78 million or $0.20 per unit).
- ACFO was stable at $3.69 million or $0.13 per unit (Q4-2022 - $3.68 million or $0.13 per unit).

Year-to-date:

- Revenue was steady at $73.90 million (2022 - $74.11 million).
- NOI was up 1% to $46.64 million (2022- $46.32 million).
- FFO was down 3% to $23.87 million or $0.82 per unit (2022 - $24.73 million or $0.85 per unit).
- ACFO was down 12% to $15.65 million or $0.54 per unit (2022 - $17.87 million or $0.61 per unit).

1. *Readers are reminded that established key performance measures may not have standardized meaning under GAAP. For further information on the REIT's non-standard measures, non-GAAP measures, operating measures and non-GAAP ratios, refer to the information in the press release below along with the Non-GAAP and Non-Standard Measures section in the MD&A.*

Management believes FFO best reflects our true operating performance and ACFO best reflects our cash position and therefore our ability to pay distributions. Non-cash fair value adjustments may cause significant variability in results, making comparisons less meaningful. Class B LP units, investment properties, and derivative instruments (convertible debenture conversion feature and swaps on floating for fixed interest rates), impacting comparative results. Net income in the current and comparative period is significantly impacted by the non-cash fair value adjustments and thus not a meaningful metric to assess financial performance.

ACFO for the year was impacted by changes in estimate on our normalized capital expenditures and normalized tenant incentives and direct leasing costs. We adjusted our estimates for future spend required to attract and retain tenants. As at December 31, 2023 we had $3.29 million in cash and $3.42 million in additional capacity under our revolving credit facility.

In the quarter rental revenue was down 2% and has remained stable year-to-date. Net rental income was down 1% in the quarter and year-to-date. We saw a 1% increase in NOI in the quarter and year-to-date. Our same-asset NOI calculations, which normalize out Kelowna Business Center, which was sold in 2023, as well as assets held for sale, is up 1% in the quarter and 2% year-to-date.

With a focus on increasing liquidity and reducing debt, we are actively seeking strategic opportunities to sell certain assets and allow us to focus on our core assets. In Q1-2023, we sold Kelowna Business Centre for $19.50 million, with proceeds being used to payout the outstanding mortgage outstanding on the property, with the balance reducing our line of credit. During the year, we also reclassified three retail properties in Saskatchewan as assets held for sale as we shift focus to our Alberta markets.

Our investment properties are revalued as a minimum of every two years, or as market conditions dictate. Revaluations in 2023 resulted in fair value losses of $16.79 million (2022 - losses of $12.00 million). Rising interest rates have increased the cost of borrowing and overall risk of investing driving up capitalization rates. An increase in capitalization rate has an inverse impact on property values.

We adjusted our normalized capital expenditures estimates in late 2022 to account for increases required to properly manage our assets to attract and retain tenants. This increase in estimate resulted in a reduction in the quarter and year-to-date to both adjusted funds from operations, which was down 8% in the quarter and down 17% year-to-date, as well as adjusted cash from operations which was consistent in the quarter and down 12% year to date. These reductions had an inverse effect on our payout ratios, which have gone up in both the quarter and year-to-date.

In 2023, we had four mortgages up for renewal with a maturing principal balance of $46.12 million of which, we renewed three mortgages for a combined total of $42.21 million. We also paid out two mortgages in the year for $12.66 million which includes $8.73 million that was repaid from the proceeds from sale of the Kelowna Business Centre and $3.93 million related to Princeton Place using proceeds from our revolving credit facility.

In the year, we repaid $14.26 million from one of our Class C mortgages, using $12.74 million in funds from a new mortgage at a rate of 4.62% with the remaining balance repaid using our revolving credit facility. Interest rates on renewals and new mortgages during the year ranged from fixed rates of 4.62% to 8.01%. Under our revolving credit facility, we currently support a borrowing base of $46.07 million and as at December 31, 2023 had $37.86 million drawn.

OPERATING HIGHLIGHTS:

We are pleased with the volume of new leasing, renewals and holdovers completed in 2023. Positive leasing activity renewals representing 541,010 sf (including holdovers) for a retention rate of 88% at December 31, 2023, and increase of 2% over 2022 (86%). New leasing has been steady across the portfolio with 108,581 sf in new deals commencing in 2023 and an additional 29,995 sf committed for future occupancy. Leasing efforts yielded a WABR increase of 3% across the portfolio to $17.06 per sf (2022 - $16.55 per sf).

UNITHOLDER HIGHLIGHTS

We paid stable monthly distributions at a rate of $0.04 per unit from January to December. Our annual payout ratio was 89% based on ACFO (2022 - 78%) and 58% based on FFO (2022 - 56%).

SUBSEQUENT EVENTS

Distributions

On January 15, 2024 we declared a monthly distribution of $0.04 per share, payable on February 15, 2024 to unitholders of record on January 31, 2024. On February 22, 2024 the REIT announced the suspension of its monthly distribution which is expected to enable the REIT to retain approximately $1.2 million of cash, monthly, improving the REIT's financial flexibility moving forward.

Strategic review

The Board of Trustees announced on February 22, 2024 the establishment of an Independent Committee to oversee a broad-based strategic review with a focus on unlocking unitholder value. The Independent committee will retain a financial advisor to evaluate strategic alternatives to maximize unitholder value. This committee is comprised of the independent members of the Board of Trustees of the REIT, and is chaired by Richard Kirby.

There can be no assurances that the strategic review will result in the REIT pursuing any transaction or that any alternative transaction will be available to the REIT. Furthermore, the Independent Committee has not set a timeline on the completion of this process and we do not intend to comment further on the review until we determine that additional disclosures are appropriate or required.

Financial Highlights

($000s)	Three-months ended December 31 2023	2022	△%	Year ended December 31 2023	2022	△%
Non-Standard KPIs						
Net operating income (NOI)[5]	**11,530**	11,460	1 %	**46,635**	46,319	1 %
Same-asset NOI[5]	**10,961**	10,801	1 %	**44,049**	43,178	2 %
Funds from Operations (FFO)[5]	**5,654**	5,781	(2)%	**23,869**	24,725	(3)%
Adjusted Funds from Operations (AFFO)[5]	**3,567**	3,523	1 %	**15,178**	17,248	(12)%
Adjusted Cash Flows from Operations (ACFO)[5]	**3,691**	3,679	– %	**15,654**	17,873	(12)%
Rental revenue	**18,502**	18,797	(2)%	**73,900**	74,105	– %
Income before fair value adjustment[5]	**2,763**	3,529	(22)%	**12,154**	13,260	(8)%
Fair value adjustment on investment properties[1]	**(8,429)**	(9,130)	nm	**(16,794)**	(11,995)	nm
Cash flow from operations	**3,197**	4,394	(27)%	**11,993**	11,936	– %
Distributions to unitholders	**1,555**	1,555	– %	**6,222**	6,222	– %
Distributions[2]	**$0.120**	$0.120	– %	**$0.480**	$0.480	– %
Per Unit Metrics						
Net income (loss)						
Basic	**($0.12)**	($0.09)		**$1.26**	$2.28	
Diluted	**($0.21)**	($0.09)		**$0.06**	$0.59	
Weighted average number of units for net income (loss) ($000s):[3]						
Basic	**12,963**	12,963	– %	**12,963**	12,964	– %
Diluted	**29,088**	36,255	(20)%	**29,088**	29,089	– %
FFO						
Basic[6]	**$0.19**	$0.20		**$0.82**	$0.85	
Diluted[6]	**$0.18**	$0.19		**$0.75**	$0.82	
Payout ratio[6]	**62%**	60%		**58%**	56%	
AFFO						
Basic[6]	**$0.12**	$0.12		**$0.52**	$0.59	
Payout ratio[6]	**98%**	99%		**92%**	81%	
ACFO						
Basic[6]	**$0.13**	$0.13		**$0.54**	$0.61	
Payout ratio[6]	**95%**	95%		**89%**	78%	
Weighted average number of units for FFO, AFFO & ACFO (000s):[4]						
Basic	**29,088**	29,088	– %	**29,088**	29,089	– %
Diluted	**36,255**	36,255	– %	**36,255**	36,256	– %

(1) The abbreviation nm is shorthand for not meaningful and is used through this MD&A where appropriate.
(2) Distributions for the current and comparative periods have been paid out at a rate of $0.04 per unit per month.
(3) 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.
(4) 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.
(5) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section of the MD&A for further information.
(6) Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section of the MD&A for further information.

	2023	2022	△%
Total assets ($000s)	**700,998**	730,769	(4)%
Equity at historical cost ($000s)[(1)]	**288,196**	288,196	– %
Indebtedness ($000s)[(2)]	**420,339**	440,688	(5)%
Weighted average interest rate on debt	**4.52%**	4.01%	13 %
Debt to GBV, excluding convertible debentures (maximum threshold - 60%)[(5)]	**50%**	51%	(2)%
Debt to GBV (maximum threshold - 65%)[(5)]	**56%**	57%	(2)%
Finance costs coverage ratio[(3)]	**2.21**	2.32	(5)%
Debt service coverage ratio[(4)]	**1.93**	1.88	3 %

(1) Calculated as the sum of trust units and Class B LP Units at their historical cost. In accordance with IFRS Accounting Standards the Class B LP Units are presented as a financial liability in the consolidated financial statements. Please refer to page 22 for the calculation of Equity at historical cost.
(2) Calculated as the sum of total amount drawn on revolving credit facility, mortgages payable, Class C LP Units, excluding convertible debentures, unamortized discount and transaction costs. Please refer to the Liquidity & Capital Resources section on page 19 for the calculation of Indebtedness.
(3) Non-GAAP financial ratio. 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. Refer to the Non-GAAP and Non-Standard Measures section of the MD&A for further information.
(4) Non-GAAP financial ratio. Calculated as FFO; divided by sum of contractual principal repayments on mortgages payable and distributions of Class C LP Units. This metric is not calculated for purposes of covenant compliance on any of our debt facilities. Refer to the Non-GAAP and Non-Standard Measures section of the MD&A for further information.
(5) Debt to GBV is a Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section of the MD&A for further information.

Operational Highlights

	2023	2022	△%
Number of properties	**38**	39	(3)%
Gross leasable area (GLA) (sf)	**3,150,646**	3,216,141	(2)%
Occupancy (weighted by GLA)	**87.6%**	88.1 %	(1)%
Retention (weighted by GLA)	**87.9%**	86.1 %	2 %
Weighted average remaining lease term (years)	**4.31**	4.25	1 %
Weighted average base rent (per sf)	**$17.06**	$16.55	3 %

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 2023 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.sedarplus.ca).

Conference Call & Webcast

Unitholders and interested parties are invited to join management on a conference call to be held March 6, 2024 at 11:00 AM ET (9:00 AM MT). Call 1-416-915-3239 in the Toronto area; 1-800-319-4610 toll free.

The call will be webcast at https://www.gowebcasting.com/13130. A replay of the call will be available shortly after the call is concluded at the same address.

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. As at December 31, 2023 its portfolio was made up of interests in 38 properties representing approximately 3.15 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, Same-asset 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 as issued by the International Accounting Standards Board (IFRS Accounting Standards) do not have standard meanings and may not be comparable with other industries or income trusts. These non-IFRS Accounting Standards measures are more fully defined and discussed in the REIT's management discussion and analysis for the period ended December 31, 2023, which is available on SEDAR+ at www.sedarplus.ca.

NOI Reconciliation

	Three months ended December 31			Year ended December 31		
($000s)	2023	2022	△%	2023	2022	△%
Net income/(loss)	(1,616)	(1,062)		16,313	29,610	
Net finance costs	9,305	5,084		28,685	18,400	
Fair value adjustment on Class B LP Units	(6,450)	(3,548)		(22,253)	(20,318)	
Fair value adjustment on investment properties	8,429	9,130		16,794	11,995	
General and administrative expenses	818	977		3,112	3,358	
Amortization of tenant incentives	956	962		3,975	3,725	
Straight-line rent adjustment	88	(83)		9	(451)	
NOI	11,530	11,460	1 %	46,635	46,319	1 %

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section of the MD&A for further information.

Same-asset Reconciliation

	Three months ended December 31			Year ended December 31		
($000s)	2023	2022	△%	2023	2022	△%
Same-asset NOI(1)	10,961	10,801	1 %	44,049	43,178	2 %
Acquisitions	–	–		–	–	
Disposals / Asset Held for Sale	569	659		2,586	3,141	
NOI(1)	11,530	11,460	1 %	46,635	46,319	1 %
Amortization of tenant incentives	(956)	(962)		(3,975)	(3,725)	
Straight-line rent adjustments	(88)	85		(9)	451	
Net rental income	10,486	10,583	(1)%	42,651	43,045	(1)%

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section of the MD&A for further information.

FFO & AFFO Reconciliation

	Three months ended December 31			Year ended December 31		
($000s, except per unit amounts)	2023	2022	△%	2023	2022	△%
Net income (loss) for the year	(1,616)	(1,062)		16,313	29,610	
Add (deduct)						
Fair value adjustment on investment properties	8,429	9,130		16,794	11,995	
Fair value adjustment on Class B LP Units	(6,450)	(3,548)		(22,253)	(20,318)	
Amortization of tenant incentives	956	962		3,975	3,725	
Distributions on Class B LP Units	1,935	1,290		7,740	7,740	
Fair value adjustment on derivative instruments	2,400	(991)		1,300	(8,027)	
Funds From Operations (FFO)(1)	5,654	5,781	(2)%	23,869	24,725	(3)%
Add (deduct)						
Straight-line rent adjustments	88	(83)		9	(451)	
Normalized capital expenditures	(750)	(750)		(3,000)	(2,514)	
Normalized tenant incentives and leasing commissions	(1,425)	(1,425)		(5,700)	(4,512)	
Adjusted Funds from Operations (AFFO)(1)	3,567	3,523	1 %	15,178	17,248	(12)%
FFO/Unit(2)	$0.19	$0.20		$0.82	$0.85	
AFFO/Unit(2)	$0.12	$0.12		$0.52	$0.59	
Weighted average number of units (000s):(3)	29,088	29,088	– %	29,088	29,089	– %

(1) Non-GAAP financial measure. Refer to the non-standard measures section of the MD&A for further information.
(2) Non-GAAP ratio. Refer to the non-standard measures section of the MD&A for further information.
(3) For the purposes of calculating per unit FFO and AFFO the basic weighted average number of units includes Trust Units and Class B LP Units.

ACFO Reconciliation

	Three months ended December 31			Year ended December 31		
($000s, except per unit amounts)	2023	2022	△%	2023	2022	△%
Cash flows from operations	3,197	4,394	(27)%	11,993	11,936	– %
Distributions on Class B LP Units	1,935	1,290		7,740	7,740	
Actual payment of tenant incentives and direct leasing costs	4,158	2,060		8,516	8,779	
Changes in operating assets and liabilities	(3,140)	(1,596)		(2,677)	(2,288)	
Amortization of deferred financing fees	(284)	(294)		(1,218)	(1,268)	
Normalized capital expenditures	(750)	(750)		(3,000)	(2,514)	
Normalized tenant incentives and leasing commissions	(1,425)	(1,425)		(5,700)	(4,512)	
Adjusted Cash Flows from Operations (ACFO)(1)	3,691	3,679	– %	15,654	17,873	(12)%
ACFO/Unit(2)	$0.13	$0.13		$0.54	$0.61	
Weighted average number of units (000s):(3)	29,088	29,088	– %	29,088	29,089	– %

(1) Non-GAAP financial measure. Refer to the non-standard measures section of the MD&A for further information.
(2) Non-GAAP ratio. Refer to the non-standard measures section of the MD&A for further information.
(3) The diluted weighted average number of units includes Trust Units, Class B LP Units and convertible debentures.

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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