

Media Release

for immediate distribution

Melcor REIT announces second quarter 2024 results

Edmonton, Alberta | July 30, 2024

Melcor Real Estate Investment Trust ("Melcor REIT" or the "REIT") (TSX: MR.UN) today announced results for the second quarter ended June 30, 2024. The second quarter 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: "Our portfolio continues to show resiliency despite challenging market conditions. Our team continues to focus on leasing up vacant space and providing tenants with exceptional service.

The real estate market has shown mixed performance across different property sectors, influenced by several economic and market factors. While there are signs of recovery, pressures such as inflation and elevated interest rates continue to impact overall results. Despite these ongoing uncertainties, we continue to demonstrate resilience and adaptability, and remain focused on tenant retention and actively leasing vacant space.

Our office portfolio continues to be our biggest challenge, with an increase in supply coupled with a decrease in demand creating difficulties in leasing up vacant space. Inflationary pressures have led to rising costs of new deals and increases to capital expenditure required to maintain our buildings. To date in 2024, we have recorded net losses of \$10.62 million on our office assets due to lower NOI and/or rising capitalization rates on certain properties, primarily in our office segment.

We remain committed to our strategic decision to focus on our core Alberta assets with a goal to reduce overall debt. We have classified four properties as asset held for sale (under IFRS accounting standards) which includes three retail properties in Regina, SK and one retail property in Grande Prairie, AB. Net cash from the sale of these assets is expected to be used to pay down the revolving credit facility and reducing our overall debt. On May 10, 2024, we closed on the sale of our Richter Street property, a 29,000 sf office property located in Kelowna, BC for gross proceeds of \$7.80 million, resulting in net proceeds of \$7.48 million."

Ralph Young, Chairman of the REIT commented: "Earlier this year, the Board of Trustees established an Independent Committee (the "Independent Committee") to oversee a broad-based strategic review with a focus on unlocking unitholder value. The Independent Committee has retained BMO Capital Markets as financial advisor and DLA Piper (Canada) LLP as legal counsel to evaluate a broad range of strategic alternatives to maximize unitholder value. The review process is ongoing, and at this time no additional information is available on the results of the review."

Financial highlights of our performance are summarized below.

Second quarter:

- Revenue was down 1.5% to \$17.86 million (Q2-2023: \$18.12 million)
- NOI was down 1.8% to \$11.48 million (Q2-2023: \$11.69 million)
- FFO was down 11.6% to \$5.46 million or \$0.19 per unit (Q2-2023: \$6.17 million or \$0.21 per unit)
- ACFO was down 15.4% to \$3.55 million or \$0.12 per unit (Q2-2023: \$4.20 million or \$0.14 per unit)

Year-to-date:

- Revenue was down 0.9% to \$36.76 million (2023: \$37.11 million)
- NOI was stable at \$23.14 million (2023: \$23.21 million)
- FFO was down 10.9% to \$10.86 million or \$0.37 (2023: \$12.18 million or \$0.42 per unit)
- ACFO was down 11.9% to \$7.03 million or \$0.24 per unit (2023: \$7.97 million or \$0.27 per unit)

As at June 30, 2024, we had \$3.29 million in cash and \$10.61 million in undrawn liquidity under our revolving credit facility. We have six mortgages up for renewal in 2024 for a combined total of \$43.91 million. In the quarter, we refinanced one of the mortgages up for renewal for \$11.00 million at a rate of 6.00%, providing additional proceeds of \$3.98 million in the period, and renewed an additional two mortgages maturing in the period for a combined total of \$4.32 million.

On May 27, 2024 the REIT formalized the renewal of its \$50.00 million revolving credit facility, including a \$5.00 million swing line sub-facility. The facility matures on the earlier of June 1, 2026 or October 31, 2024 if the convertible debentures have not been extended, or redeemed or if the REIT has not secured funds to satisfy the convertible debentures by its maturity date. The REIT continues to monitor its secured debts in order to identify opportunities and risks, and proactively engages with lenders in regard to upcoming maturities.

Management believes FFO best reflects our true operating performance and ACFO best reflects our cash flow and therefore our ability to pay distributions. Net income in the current and comparative periods is significantly impacted by non-cash fair value adjustments and thus not a meaningful metric to assess operating performance. Non-cash fair value adjustments include fair value adjustments on investment properties and fair value adjustments on Class B Units. To date in 2024, fair value on investments properties was a loss of \$10.01 million compared to a loss of \$9.42 million in Q2-2023. To date in 2024, these losses primarily relate to our office properties where we have recorded losses of \$10.62 million to date. Fair value adjustment on Class B Units, which have an inverse relationship with the REIT unit price, resulted in gains of \$22.25 million recorded to date in 2024 compared to gains of \$13.55 million recorded in 2023.

Funds from operations was down 11.6% in the period and 10.9% year-to-date, and adjusted funds from operations was down 16.0% in the period and 12.4% year-to-date. The reduction of funds from operations and adjusted funds from operation is a result of an increase in general and administrative expenditures primarily the result of additional costs related to the establishment of the Independent Committee and the strategic review process, along with a reduction in recoveries, and an increase in interest on mortgage payable and revolving credit facilities.

In the quarter and year-to-date, rental revenue has declined slightly with a 1.5% reduction in the period to \$17.86 million and a 0.9% reduction to \$36.76 million over 2023. Net rental income saw similar results with a 1.9% decrease over Q2-2023 to \$10.41 million, and a 1.3% decrease over 2023 to \$20.98 million. The decrease over 2023 is due to a reduction in recoveries and larger straight line rent adjustments (non-cash) which vary period over period depending on lease commencements and terms. Excluding SLR adjustments and amortization of tenant incentives, NOI was down 1.8% over Q2-2023 and steady year-to-date. Our same-asset NOI calculations, which normalize out Kelowna Business Center (sold in Q1-2023), Richter Street (sold in Q2-2024), as well as assets classified as held for sale under IFRS Accounting Standards, are down 1.1% over Q2-2023 and down 0.1% year-to-date.

We remain focused on navigating the challenges associated with inflation, such as rising operating costs and leasing costs and higher interest costs as mortgages come up for renewal in a higher interest rate environment. We expect to see continuing pressure on operating cash flow resulting from reductions in office lease rates, higher tenant incentives, increasing operating costs and continuing higher financing costs.

OPERATIONAL HIGHLIGHTS:

Leasing in the quarter includes 321,836 sf of new and renewed leases (including holdovers) and we have retained 88.7% of expiring leases. Future leasing is promising, with commitments on an additional 17,025 sf in new deals which would bring committed occupancy up to 87.4%.

Retail properties continue to anchor our portfolio, and have seen slight improvements in weighted average base rents (WABR) over Q2-2023, with occupancy remaining strong at 91.8%. Retail represents 44.7% of our total GLA as at June 30, 2024, and 60.0% of net rental income for the six months ended June 30, 2024. Our office properties continue to feel pressure on renewal rates and new leasing due to changing market needs as well as an increase in supply in some of our key geographic areas, specifically our Edmonton office properties which have seen an increase in new development of office space in recent years.

On May 10, 2024, we sold our Richter Street property. This property was 29,000 sf office property located in Kelowna, BC for net proceeds of \$7.48 million after transaction costs. This property was pledged as collateral on a different investment property and as such the bank required \$5.08 million from the net proceeds be held as additional security in short term investments. Net cash of \$2.40 million was used to reduce borrowings on our credit facility.

DISTRIBUTIONS:

In January 2024 we declared a distribution of \$0.04 per unit. On February 22, 2024, we announced the suspension of the monthly distribution concurrent with the commencement of a strategic review. In the comparative quarter and six-months ended June 30, distributions were paid at a rate of \$0.04 per unit per month.

There were no distributions paid in the quarter, to date in 2024 we have paid \$0.04 per unit (January 2024) resulting in a year-to-date payout ratio of 16.6% (2023 - 87.5%) based on ACFO. FFO had a year-to-date payout ratio in the period and 10.7% (2023 - 57.0%). As noted above, distributions were suspended in February 2024 impacting the payout ratios in the current period. Distributions to unit holders and on Class B LP Units are recorded in the period they are declared to unitholders.

The REIT intends to make distributions that are equal to or greater than the taxable income that would otherwise be reported by the REIT.

KPI's:

(\$000's)	Three months ended June 30			Six months ended June 30		
	2024	2023	△%	2024	2023	△%
NOI ¹	11,482	11,689	(1.8)	23,143	23,211	(0.3)
Same-asset NOI ¹	9,765	9,870	(1.1)	19,616	19,640	(0.1)
FFO ¹	5,459	6,173	(11.6)	10,855	12,181	(10.9)
AFFO ¹	3,426	4,081	(16.0)	6,778	7,740	(12.4)
ACFO ¹	3,550	4,198	(15.4)	7,027	7,974	(11.9)
Rental revenue	17,858	18,123	(1.5)	36,763	37,113	(0.9)
Income before fair value adjustments ¹	4,526	3,245	39.5	8,318	6,260	32.9
Fair value adjustment on investment properties ³	(958)	(7,830)	nm	(10,014)	(9,416)	nm
Cash flows from operations	2,633	3,087	(14.7)	7,481	4,969	50.6
Distributions paid to unitholders	—	1,555	(100.0)	519	3,111	(83.3)
Distributions paid ²	\$—	\$0.12	(100.0)	\$0.04	\$0.24	(83.3)

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

2. Distributions for 2024 were \$0.04 per unit in the month of January 2024, and were suspended in February 2024. Distributions in the comparative period were paid out at \$0.04 per unit per month.

3. The abbreviation nm is shorthand for not meaningful and may be used where appropriate.

Operational Highlights:

	June 30, 2024	December 31, 2023	△%
Number of properties	37	38	(2.6)
GLA (sf)	3,121,673	3,150,646	(0.9)
Occupancy (weighted by GLA)	86.9 %	87.6 %	(0.8)
Retention (weighted by GLA)	88.7 %	87.9 %	0.9
Weighted average remaining lease term (years)	3.48	4.31	(19.3)
Weighted average base rent (per sf)	\$17.05	\$17.06	(0.1)

Per Unit Metrics:

	Three months ended June 30			Six months ended June 30		
	2024	2023	△%	2024	2023	△%
Per Unit Metrics						
Net income (loss)						
Basic	\$0.81	\$0.56		\$1.61	\$0.84	
Diluted	\$0.11	(\$0.05)		(\$0.03)	\$0.04	
Weighted average number of units for net income (loss) (000s): ¹						
Basic	12,963	12,963	—	12,963	12,963	—
Diluted	29,088	29,088	—	29,088	29,088	—
FFO						
Basic ²	\$0.19	\$0.21		\$0.37	\$0.42	
Diluted ²	\$0.18	\$0.20		\$0.37	\$0.40	
Payout ratio ²	— %	56.5 %		10.7%	57.0%	
AFFO						
Basic ²	\$0.12	\$0.14		\$0.23	\$0.27	
Payout ratio ²	— %	85.5 %		17.2%	90.0%	
ACFO						
Basic ²	\$0.12	\$0.14		\$0.24	\$0.27	
Payout ratio ²	— %	83.1 %		16.6%	87.5%	
Weighted average number of units for FFO, AFFO and ACFO (000s): ³						
Basic	29,088	29,088	—	29,088	29,088	—
Diluted	34,257	34,257	—	34,257	34,257	—

1. For the purposes of calculating per unit net income 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.
2. Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.
3. 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.

Balance Sheet Highlights:

	June 30, 2024	December 31, 2023	△%
Total assets (\$000s)	687,565	700,998	(1.9)
Equity at historical cost (\$000s) ¹	288,196	288,196	–
Indebtedness (\$000s) ²	411,660	420,339	(2.1)
Weighted average interest rate on debt	4.54 %	4.52 %	0.4
Debt to GBV, excluding convertible debentures (maximum threshold - 60%) ³	49.0 %	50.0 %	(2.0)
Debt to GBV (maximum threshold - 65%) ³	55.1 %	56.0 %	(1.8)
Finance costs coverage ratio ⁴	2.08	2.21	(5.9)
Debt service coverage ratio ⁵	1.87	1.93	(3.1)

1. Calculated as the sum of trust units and Class B LP Units at their historical cost value. In accordance with IFRS the Class B LP Units are presented as a financial liability in the consolidated financial statements. Please refer to the MD&A for 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 and convertible debentures, excluding unamortized discount and transaction costs. Please refer to page 11 for calculation of Indebtedness.
3. Debt to GBV is a Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section in the MD&A for further information.
4. 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. Please refer to Non-GAAP and Non-Standard Measures section in the MD&A for further information.
5. Non-GAAP financial ratio. 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 Non-GAAP and Non-Standard Measures section in the MD&A for further information.

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 the REIT's Q2-2024 quarterly report to unitholders. The REIT's consolidated financial statements and management's discussion and analysis for the period ended June 30, 2024 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 July 31, 2024, at 11:00 AM ET (9:00 AM MT).

Conference Call Details:

- Canada/USA Toll Free: 1-844-763-8274
- International Toll: 1-647-484-8814

The call will also be webcast (listen only) at <https://www.gowebcasting.com/113346>. A replay of the call will be available at the same URL shortly after the call is concluded.

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 in western Canadian markets. Its portfolio is currently made up of interests in 37 properties representing approximately 3.12 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-GAAP and 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 defined and discussed in the REIT's MD&A for the quarter ended June 30, 2024, which is available on SEDAR+ at www.sedarplus.ca.

Finance costs coverage ratio: Finance costs coverage ratio is a non-GAAP ratio and is calculated as FFO plus finance costs for the period divided by finance costs expensed during the period excluding distributions on Class B LP Units and fair value adjustment on derivative instruments.

Debt service coverage ratio: Debt service coverage ratio is a non-GAAP ratio and is calculated as FFO for the period divided by principal repayments on mortgages payable and Class C LP Units made during the period.

Debt to Gross Book Value: Debt to GBV is a non-GAAP ratio and is 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 (as applicable) and convertible debenture, excluding unamortized discount and transaction costs divided by GBV. GBV is calculated as the total assets acquired in the Initial Properties, subsequent asset purchases and development costs less dispositions.

Income before fair value adjustment and taxes: Income before fair value adjustment and income taxes is a non-GAAP financial measure and is calculated as net income excluding fair value adjustments for Class B LP Units, investment properties and derivative instruments.

(\$000s)	Three months ended June 30			Six months ended June 30		
	2024	2023	△%	2024	2023	△%
Net income for the period	10,514	7,198		20,866	10,854	
Fair value adjustment on Class B LP Units	(7,256)	(10,643)		(22,252)	(13,546)	
Fair value adjustment on investment properties	958	7,830		10,014	9,416	
Fair value adjustment on derivative instruments	310	(1,140)		(310)	(464)	
Income before fair value adjustment and taxes	4,526	3,245	39.5	8,318	6,260	32.9

Fair value of investment properties: Fair value of investment properties in the Property Profile and Regional Analysis sections 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 (TIs and SLR).

NOI Reconciliation:

(\$000s)	Three months ended June 30			Six months ended June 30		
	2024	2023	△%	2024	2023	△%
Net income for the period	10,514	7,198		20,866	10,854	
Net finance costs	5,177	5,492		10,316	13,012	
Fair value adjustment on Class B LP Units	(7,256)	(10,643)		(22,252)	(13,546)	
Fair value adjustment on investment properties	958	7,830		10,014	9,416	
General and administrative expenses	1,014	736		2,034	1,515	
Amortization of tenant incentives	933	993		1,892	2,051	
Straight-line rent adjustment	142	83		273	(91)	
NOI	11,482	11,689	(1.8)	23,143	23,211	(0.3)

Same-asset Reconciliation:

(\$000s)	Three months ended June 30			Six months ended June 30		
	2024	2023	△%	2024	2023	△%
Same-asset NOI	9,765	9,870	(1.1)	19,616	19,640	(0.1)
Disposals / Assets held for sale	1,717	1,819		3,527	3,571	
NOI ¹	11,482	11,689	(1.8)	23,143	23,211	(0.3)
Amortization of tenant incentives	(933)	(993)		(1,892)	(2,051)	
SLR adjustment	(142)	(83)		(273)	91	
Net rental income	10,407	10,613	(1.9)	20,978	21,251	(1.3)

FFO & AFFO Reconciliation:

(\$000s, except per unit amounts)	Three months ended June 30			Six months ended June 30		
	2024	2023	△%	2024	2023	△%
Net income for the period	10,514	7,198		20,866	10,854	
Add / (deduct)						
Fair value adjustment on investment properties	958	7,830		10,014	9,416	
Fair value adjustment on Class B LP Units	(7,256)	(10,643)		(22,252)	(13,546)	
Amortization of tenant incentives	933	993		1,892	2,051	
Distributions on Class B LP Units	–	1,935		645	3,870	
Fair value adjustment on derivative instruments	310	(1,140)		(310)	(464)	
FFO¹	5,459	6,173	(11.6)	10,855	12,181	(10.9)
Deduct						
Straight-line rent adjustments	142	83		273	(91)	
Normalized capital expenditures	(750)	(750)		(1,500)	(1,500)	
Normalized tenant incentives and leasing commissions	(1,425)	(1,425)		(2,850)	(2,850)	
AFFO	3,426	4,081	(16.0)	6,778	7,740	(12.4)
FFO/Unit	\$0.19	\$0.21		\$0.37	\$0.42	
AFFO/Unit	\$0.12	\$0.14		\$0.23	\$0.27	
Weighted average number of units (000s): ¹	29,088	29,088	–	29,088	29,088	–

1. 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:

(\$000s, except per unit amounts)	Three months ended June 30			Six months ended June 30		
	2024	2023	△%	2024	2023	△%
Cash flows from operations	2,633	3,087	(14.7)	7,481	4,969	50.6
Distributions on Class B LP Units	–	1,935		645	3,870	
Actual payment of tenant incentives and direct leasing costs	2,332	1,046		3,238	3,001	
Changes in operating assets and liabilities	1,042	601		575	1,133	
Amortization of deferred financing fees	(282)	(296)		(562)	(649)	
Normalized capital expenditures	(750)	(750)		(1,500)	(1,500)	
Normalized tenant incentives and leasing commissions	(1,425)	(1,425)		(2,850)	(2,850)	
ACFO	3,550	4,198	(15.4)	7,027	7,974	(11.9)
ACFO/Unit	\$0.12	\$0.14		\$0.24	\$0.27	
Weighted average number of units (000s) ¹	29,088	29,088	–	29,088	29,088	–

1. 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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