Media Release

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Melcor REIT announces first quarter 2024 results

Edmonton, Alberta | May 8, 2024

Melcor Real Estate Investment Trust ("Melcor REIT" or the "REIT") (TSX: MR.UN) today announced results for the first quarter ended March 31, 2024. The first 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: "We are pleased to report stable first quarter results despite challenging market conditions. Stable results are the result of first-class service provided by our property management group and consistent leasing efforts by our leasing team.

"In the first quarter of 2024, we continue to navigate headwinds arising from rising costs due to inflation and elevated interest rates. Certain asset classes have begun to exhibit modest improvements; however, challenges still exist. Despite these ongoing uncertainties, we continue to demonstrate resilience and adaptability, and remain focused on tenant retention and actively leasing vacant space.

"As part of a strategic decision to focus on our Alberta markets and debt repayment we have classified four properties as held for sale, including three retail properties and one office property in Saskatchewan and British Columbia. 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 April 16, 2024, we entered an unconditional sale of one of these assets for gross proceeds of $7.80 million which is expected to close on May 10, 2024. Net proceeds from this sale will be used to reduce debt."

On February 22, 2024, the Board of Trustees of Melcor REIT announced the establishment of 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 Independent Committee is chaired by Richard Kirby, and also includes Bernie Kollman and Barry James as committee members. We will continue to provide updates to the market as they become available.

FINANCIAL HIGHLIGHTS:

Financial highlights of our performance are summarized below.

First quarter:

- Revenue was steady at $18.91 million (Q1-2023: $18.99 million)
- NOI was up 1.2% at $11.66 million (Q1-2023: $11.52 million)
- FFO was down 10.2% to $5.40 million or $0.19 per unit (Q1-2023: $6.01 million or $0.21 per unit)
- ACFO was down 7.9% at $3.48 million or $0.12 per unit (Q1-2023: $3.78 million or $0.13 per unit) for a quarterly payout ratio of 33.5% based on ACFO (Q3-2022: 92.4%)

As at March 31, 2024 we had $3.86 million in cash and $8.45 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. The REIT has a $50.00 million revolving credit facility, including a $5.00 million swing line sub-facility maturing June 1, 2024. Subsequent to quarter end, we received confirmation from our lenders that they have issued credit approval for the extension of the credit facility subject to entering into an amended credit agreement and related documents. 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 period is significantly impacted by non-cash fair value adjustments and thus not a meaningful metric to assess operating performance.

Funds from operations and adjusted funds from operations were both was down 8.4% over Q1-2023. Significant factors include an increase of 30.9% in general and administrative expenditures primarily due to additional costs related to the establishment of the Independent Committee and the increase on mortgage payable and revolving credit facilities of 10.3% related to rising interest rates.

Rental revenue has remained stable in the quarter compared to Q1-2023, with net rental income decreasing 0.6% over Q1-2023, due to swings in amortization (non-cash) offset by an increase in base rent. We saw a 1.2% increase in NOI in the quarter. Our same-asset NOI calculations, which normalize out assets sold or classified as held for sale, is up 0.9% over Q1-2023.

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:

We are pleased with the volume of new leasing activity across our portfolio. Leasing in the quarter includes 222,352 sf of new and renewed leases (including holdovers) and we have retained 97.9% of expiring leases. Future leasing is promising, with commitments on an additional 47,116 sf in new deals which would bring committed occupancy up to 88.2%.

Retail properties continue to anchor our portfolio and have seen slight improvements in WABR over Q1-2023, with occupancy remaining strong at 93.4%. Retail represents 44.3% of our total GLA as at March 31, 2024 and 60.2% of net rental income for the three months ended March 31, 2024. Our office properties continue to navigate downward pressure on rental rates and 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.

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 distributions were paid at a rate of $0.04 per unit per month for the whole quarter.

The quarterly payout ratio was 33.5% (Q1-2023: 95.4%) based on ACFO and 22% (Q1-2023: 58.1%) based on FFO. 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:

	Three months ended March 31		
($000's)	**2024**	2023	△%
NOI[1]	**11,661**	11,522	1.2
Same-asset NOI[1]	**10,923**	10,824	0.9
FFO[1]	**5,396**	6,008	(10.2)
AFFO[1]	**3,352**	3,659	(8.4)
ACFO[1]	**3,477**	3,776	(7.9)
Rental revenue	**18,905**	18,990	(0.4)
Income before fair value adjustments[1]	**3,792**	3,015	25.8
Fair value adjustment on investment properties[3]	**(9,056)**	(1,586)	nm
Cash flows from operations	**4,848**	1,882	157.6
Distributions paid to unitholders	**519**	1,556	(66.6)
Distributions paid[2]	**$0.04**	$0.12	(66.7)

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:

	March 31, 2024	December 31, 2023	△%
Number of properties	**38**	38	–
GLA (sf)	**3,150,646**	3,150,646	–
Occupancy (weighted by GLA)	**87.7 %**	87.6 %	0.1
Retention (weighted by GLA)	**97.9 %**	87.9 %	11.4
Weighted average remaining lease term (years)	**4.57**	4.31	6.0
Weighted average base rent (per sf)	**$17.01**	$17.06	(0.3)

Per Unit Metrics:

	Three months ended March 31		
	2024	2023	△%
Per Unit Metrics			
Net income (loss)			
Basic	**$0.80**	$0.28	
Diluted	**($0.14)**	$0.09	
Weighted average number of units for net income (loss) (000s):[1]			
Basic	**12,963**	12,963	–
Diluted	**29,088**	29,088	–
FFO			
Basic[2]	**$0.19**	$0.21	
Diluted[2]	**$0.18**	$0.20	
Payout ratio[2]	**21.6%**	58.0%	
AFFO			
Basic [2]	**$0.12**	$0.13	
Payout ratio[2]	**34.7%**	95.0%	
ACFO			
Basic[2]	**$0.12**	$0.13	
Payout ratio[2]	**33.5%**	92.4%	
Weighted average number of units for FFO, AFFO and ACFO (000s):[3]			
Basic	**29,088**	29,088	–
Diluted	**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:

	March 31, 2024	December 31, 2023	△%
Total assets ($000s)	**693,318**	700,998	(1.1)
Equity at historical cost ($000s)[1]	**288,196**	288,196	–
Indebtedness ($000s)[2]	**417,074**	420,339	(0.8)
Weighted average interest rate on debt	**4.51 %**	4.52 %	(0.2)
Debt to GBV, excluding convertible debentures (maximum threshold - 60%)[3]	**49.7 %**	50.0 %	–
Debt to GBV (maximum threshold - 65%)[3]	**55.8 %**	56.0 %	–
Finance costs coverage ratio[4]	**2.05**	2.21	(7.2)
Debt service coverage ratio[5]	**1.81**	1.93	(6.2)

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 Q1-2024 quarterly report to unitholders. The REIT's consolidated financial statements and management's discussion and analysis for the period ended March 31, 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 May 9, 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/13231. 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 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-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 March 31, 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.

	Three months ended March 31		
($000s)	**2024**	2023	△%
Net income for the period	**10,352**	3,656	
Fair value adjustment on Class B LP Units	**(14,996)**	(2,903)	
Fair value adjustment on investment properties	**9,056**	1,586	
Fair value adjustment on derivative instruments	**(620)**	676	
Income before fair value adjustment and taxes	**3,792**	3,015	25.8

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 March 31 2024	2023	r%
Net income for the period	**10,352**	3,656	
Net finance costs	**5,139**	7,520	
Fair value adjustment on Class B LP Units	**(14,996)**	(2,903)	
Fair value adjustment on investment properties	**9,056**	1,586	
General and administrative expenses	**1,020**	779	
Amortization of tenant incentives	**959**	1,058	
Straight-line rent adjustment	**131**	(174)	
NOI	**11,661**	11,522	1.2

Same-asset Reconciliation:

($000s)	Three months ended March 31 2024	2023	△%
Same-asset NOI	**10,923**	10,824	0.9
Disposals / Assets held for sale	**738**	698	
NOI[1]	**11,661**	11,522	1.2
Amortization of tenant incentives	**(959)**	(1,058)	
SLR adjustment	**(131)**	174	
Net rental income	**10,571**	10,638	(0.6)

FFO & AFFO Reconciliation:

($000s, except per unit amounts)	Three months ended March 31 2024	2023	△%
Net income for the period	**10,352**	3,656	
Add / (deduct)			
Fair value adjustment on investment properties	**9,056**	1,586	
Fair value adjustment on Class B LP Units	**(14,996)**	(2,903)	
Amortization of tenant incentives	**959**	1,058	
Distributions on Class B LP Units	**645**	1,935	
Fair value adjustment on derivative instruments	**(620)**	676	
FFO[1]	**5,396**	6,008	(10.2)
Deduct			
Straight-line rent adjustments	**131**	(174)	
Normalized capital expenditures	**(750)**	(750)	
Normalized tenant incentives and leasing commissions	**(1,425)**	(1,425)	
AFFO	**3,352**	3,659	(8.4)
FFO/Unit	**$0.19**	$0.21	
AFFO/Unit	**$0.12**	$0.13	
Weighted average number of units (000s):[1]	**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:

	Three months ended March 31		
($000s, except per unit amounts)	**2024**	2023	△%
Cash flows from operations	**4,848**	1,882	157.6
Distributions on Class B LP Units	**645**	1,935	
Actual payment of tenant incentives and direct leasing costs	**906**	1,955	
Changes in operating assets and liabilities	**(467)**	532	
Amortization of deferred financing fees	**(280)**	(353)	
Normalized capital expenditures	**(750)**	(750)	
Normalized tenant incentives and leasing commissions	**(1,425)**	(1,425)	
ACFO	**3,477**	3,776	(7.9)
ACFO/Unit	**$0.12**	$0.13	
Weighted average number of units (000s)[1]	**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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