

Management's Discussion & Analysis

May 5, 2022

The following Management's Discussion and Analysis (MD&A) of Melcor Real Estate Investment Trust's (the REIT) results should be read in conjunction with the unaudited condensed interim consolidated financial statements and related notes for the quarter ended March 31, 2022 and the MD&A and consolidated financial statements and related notes for the year ended December 31, 2021. The discussion outlines strategies and provides analysis of our financial performance for the first quarter of 2022.

The underlying financial statements in this MD&A, including 2021 comparative information, have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. All dollar amounts included in this MD&A are Canadian dollars unless otherwise specified.

Throughout this MD&A we make reference to the terms "we", "our" and "management". These terms are used to describe the activities of the REIT through the eyes of management, as provided by Melcor under the asset management and property management agreements.

The REIT's Board of Trustees, on the recommendation of the Audit Committee, approved the content of this MD&A on May 5, 2022. Disclosure contained in this MD&A is current to May 5, 2022, unless otherwise indicated.

Regulatory Filings

Additional information about the REIT, including our annual information form, management information circular and quarterly reports, is available on our website at MelcorREIT.ca and on SEDAR at sedar.com.

Non-GAAP and Non-standard Measures

We refer to terms and measures which are not specifically defined in the CPA Canada Handbook and do not have any standardized meaning prescribed by IFRS. These measures include funds from operations (FFO), adjusted funds from operations (AFFO), adjusted cash flow from operations (ACFO) and net operating income (NOI), which are key measures of performance used by real estate businesses. We believe that these measures are important in evaluating the REIT's operating performance, financial risk, economic performance, and cash flows. These non-standard measures may not be comparable to similar measures presented by other companies and real estate investment trusts and should not be used as a substitute for performance measures prepared in accordance with IFRS.

Non-standard measures included in this MD&A are defined in the Non-GAAP and Non-standard Measures section.

Forward-looking Statements

In order to provide our investors with an understanding of our current results and future prospects, our public communications often include written or verbal forward-looking statements.

Forward-looking statements are disclosures regarding possible events, conditions, or results of operations that are based on assumptions about future economic conditions, courses of action and include future-oriented financial information.

This MD&A and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent the REIT's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Forward-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2022 and beyond, future leasing, acquisition and financing plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook of our operations.

By their nature, forward-looking statements require assumptions and involve risks and uncertainties related to the business and general economic environment, many beyond our control. There is significant risk that the predictions, forecasts, valuations, conclusions or projections we make will not prove to be accurate and that our actual results will be materially different from targets, expectations, estimates or intentions expressed in forward-looking statements. We also caution readers that the COVID-19 pandemic resulted in both new and increased risk; however we feel that the worst is now behind us with the lifting of restrictions. We caution readers of this document not to place undue reliance on forward-looking statements. Assumptions about the performance of the Canadian economy and how this performance will affect the REIT's business are material factors we consider in determining our forward-looking statements. For additional information regarding material risks and assumptions, please see the discussion under Business Environment and Risks in the 2021 annual management's discussion and analysis.

Readers should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Except as may be required by law, we do not undertake to update any forward-looking statement, whether written or oral, made by the REIT or on its behalf.

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Our Business

Melcor REIT has an established and diversified portfolio in western Canada. We own 39 income-producing office, retail and industrial properties representing 3.22 million square feet (sf) in gross leasable area (GLA). These high-quality properties feature stable occupancy and a diversified mix of tenants. We are externally managed, administered and operated by Melcor Developments Ltd. ("Melcor") pursuant to the asset management and property management agreements entered into at our IPO.

As at May 5, 2022, Melcor, through an affiliate, holds an approximate 55.4% effective interest in the REIT through ownership of all Class B LP Units of the Partnership and is the ultimate controlling party.

Melcor, a real estate company founded in 1923, had a rich history of growth and performance prior to the formation of the REIT. Our objective is to continue that tradition by expanding our portfolio of income-producing properties across western Canada to provide stable monthly cash distributions to unitholders. Our growth strategy is simple: acquire and improve. Together with Melcor, we have a proven track record of doing both.

Acquire

We are pleased by renewed market stability and improved business conditions. We continue to review opportunities that align with our growth strategy as conditions allow. Unit price recovery remains a critical factor in our growth strategy, so we are pleased with the significant recovery in 2021 and 2022 to date. We will continue to focus on strategies to build value within our portfolio in 2022.

Improve

We continue to improve our existing assets through both property management and asset enhancement programs.

Property Management:

We are committed to providing consistent, high quality service to our clients, thus ensuring that our occupancy rates remain high and that our space is leased at attractive rates.

Efficient property management optimizes operating costs, occupancy and rental rates. Our hands-on, on-site building management team identifies issues early on for prompt resolution, and with continuous logging and monitoring of all maintenance activity, we are able to make informed capital investment decisions to sustain long-term operating margins.

Our property management practices are designed to improve operating efficiency and reduce cost while at the same time increasing client satisfaction and thus retention rates. We enjoy strong, long-term relationships with our clients, some of whom have been with Melcor for over 25 years.

We launched MelCARE, our new customer care app in 2021. The app provides a simple, digital experience for submitting service requests while maintaining our dedication to high quality service. Strong customer satisfaction contributes to other key metrics, including retention rate, which was a healthy 86.1% in Q1-2022.

Asset Enhancement:

Our asset enhancement activities focus on sustainability and energy reduction strategies. Our buildings undergo annual assessments to identify preventative maintenance and capital investment requirements. By logging equipment and maintenance activity, we are able to identify areas where we can upgrade or replace equipment with new technology that promotes energy efficiency.

In 2021, Melcor joined the Edmonton Corporate Climate Leaders Program, a partner of Green Economy Canada, to benchmark our energy usage and set targets for climate action. We have completed our GHG inventory in 2021 and are now focused on setting our reduction targets for 2025 and 2035 and developing our action plan to achieve these targets. We expect to have our reduction targets set by the end of 2022. We remain committed to reducing our carbon footprint by seeking out programs and equipment that align with our energy reduction strategies.

We also engage specialists to monitor and analyze our energy usage to identify ways it can be improved.

Glossary of Acronyms

Acronyms used throughout our MD&A are defined here.

Common Acronyms	
ACFO	adjusted cash flows from operations
AFFO	adjusted funds from operations
FFO	funds from operations
DOT	declaration of trust
GAAP	generally accepted accounting principles
GBV	gross book value
GHG	greenhouse gas
GLA	gross leasable area
IFRS	international financial reporting standards
KPI	key performance indicators
NCIB	normal course issuer bid
NOI	net operating income
sf	square feet
SLR	straight-line rent
WABR	weighted average base rent

Please refer to Non-GAAP and Non-Standard Measures on page 14 for further information and reconciliation to GAAP measures where applicable.

Highlights & KPI's

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 Non-GAAP and Non-Standard Measures section of the MD&A.

(\$000's)	Three months ended March 31		
	2022	2021	△%
Non-standard KPIs			
NOI ¹	11,855	12,627	(6)
Same-asset NOI ¹	11,855	12,627	(6)
FFO ¹	6,530	7,101	(8)
AFFO ¹	4,911	5,604	(12)
ACFO ¹	5,767	5,749	—
Rental revenue	18,965	19,486	(3)
Income before fair value adjustments ¹	3,694	4,493	(18)
Fair value adjustment on investment properties ²	(3,662)	(401)	nm
Cash flows from operations	4,293	5,793	(26)
Distributions to unitholders	1,556	1,369	14
Distributions ³	\$0.12	\$0.11	9

1. Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.
2. The abbreviation nm is shorthand for not meaningful and is used through this MD&A where appropriate.
3. Distributions have been paid out at \$0.04 per unit per month from January to March 2022. Distributions in the comparative period were paid out at \$0.035 per unit per month from January to March 2021.

	March 31, 2022	December 31, 2021	△ %
Total assets (\$000s)	737,113	735,668	—
Equity at historical cost (\$000s) ¹	288,196	288,234	—
Indebtedness (\$000s) ²	444,891	446,769	—
Weighted average interest rate on debt	3.61 %	3.62 %	—
Debt to GBV, excluding convertible debentures (maximum threshold - 60%) ³	49 %	49 %	—
Debt to GBV (maximum threshold - 65%) ³	58 %	58 %	—
Finance costs coverage ratio ⁴	2.44	2.45	—
Debt service coverage ratio ⁵	2.18	2.06	6

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 page 11 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 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 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 for further information.

	Three months ended March 31		
	2022	2021	△%
Per Unit Metrics			
Net loss			
Basic	(\$0.50)	(\$1.87)	
Diluted	(\$0.50)	(\$1.87)	
Weighted average number of units for net income (loss) (000s): ¹			
Basic	12,987	13,046	—
Diluted	12,987	13,046	—
FFO			
Basic ²	\$0.22	\$0.24	
Diluted ²	\$0.21	\$0.23	
Payout ratio ²	53%	43%	
AFFO			
Basic ²	\$0.17	\$0.19	
Payout ratio ²	71%	55%	
ACFO			
Basic ²	\$0.20	\$0.20	
Payout ratio ²	61%	53%	
Weighted average number of units for FFO, AFFO and ACFO (000s): ³			
Basic	29,090	29,171	—
Diluted	36,256	36,340	—

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.

Operational Highlights	Mar 31, 2022	Dec 31, 2021	△%
Number of properties	39	39	—
GLA (sf)	3,215,025	3,216,175	—
Occupancy (weighted by GLA)	87.4 %	87.1 %	—
Retention (weighted by GLA)	86.1 %	81.7 %	5
Weighted average remaining lease term (years)	3.87	3.86	—
Weighted average base rent (per sf)	\$16.61	\$16.73	(1)

HIGHLIGHTS:

Our portfolio performance remained relatively stable in the first quarter; NOI decreased 6% consistent with net rental income, which decreased 5%, primarily due to the Early Termination event in Q1-2021. Excluding this event, net rental income was up 3% and NOI was up 2%.

We are proactively working to renew existing tenants, resulting in a healthy retention rate of 86.1% at quarter end. We continue to pursue new tenant opportunities and commenced 41,706 sf in new leases in Q1-2022. Occupancy is up slightly at 87.4% compared to year-end. Weighted average base rent went down in the retail and office classes as a result of the competitive lease environment.

The factors that contributed most significantly to Q1-2022 results compared to the prior year are as follows:

- **Early Termination event:** In the comparative quarter, we received \$1.00 million for the early lease termination of a fast food chain occupying 6,384 sf in Leduc Common. This fee was included in other revenue in Q1-2021, and impacts the comparative results.
- **Non-cash Fair Value Adjustments:** Non-cash fair value adjustments on Class B LP Units and investment properties often cause dramatic swings in results. Class B Units are valued at market value, thus a change in unit price has a counter-intuitive impact on net income, as an increase in unit value decreases net income. The 6% increase in the trading price of the REIT's units compared to December 31, 2021 resulted in a \$7.10 million loss on the valuation of our Class B LP Units. This event had a material impact to net income in both the current and prior periods, making comparison less meaningful. This is why management considers FFO and ACFO better measures of our performance.
- **Distribution Increase:** Our monthly distribution increased by 14% to \$0.04 per unit compared to Q1-2021.

FINANCIAL HIGHLIGHTS

Financial highlights of our performance in the first quarter include:

- Revenue was down 3% at \$18.97 million. Excluding the Early Termination event, revenue was up 3%.
- NOI was down 6% to \$11.86 million. Excluding the Early Termination event, NOI was up 2%.
- FFO was down 8% to \$6.53 million or \$0.22 per unit (Q1-2021: \$7.10 million or \$0.24 per unit). Excluding the Early Termination event, FFO was up 7% or \$0.43 million. Management believes FFO best reflects our true operating performance.
- ACFO was stable at \$5.77 million or \$0.20 per unit in Q1-2022 (Q1-2021 - \$5.75 million or \$0.20 per unit). Management believes that ACFO best reflects our cash flow and therefore our ability to pay distributions. The quarterly payout ratio was 61% based on ACFO.
- Net income in the current and comparative period is significantly impacted by the Non-cash Fair Value Adjustments described above.
- We re-financed one mortgage during the quarter at an interest rate of 3.70% for proceeds of \$7.75 million (net \$1.12 million).
- As at March 31, 2022 we had \$7.87 million in cash and \$35.00 million in undrawn liquidity under our revolving credit facility.

OPERATING HIGHLIGHTS

We are pleased with the volume of new leasing activity across our portfolio. We signed 179,269 sf of new and renewed leasing (including holdovers) and retained 86.1% of expiring leases year-to-date. Future leasing is promising, with commitment on an additional 117,527 sf of future renewals and 74,000 sf in new deals.

DISTRIBUTIONS

Our monthly distributions remained stable over year-end at \$0.04 and increased 14% over Q1-2021. The quarterly payout ratio was 61% based on ACFO and 53% based on FFO (Q1-2021: distribution of \$0.035 per month; 53% ACFO and 43% FFO).

SUBSEQUENT EVENT

Subsequent to the quarter, we declared the following distribution:

Month	Record Date	Distribution Date	Distribution Amount
April 2022	April 29, 2022	May 16, 2022	\$0.04 per Unit
May 2022	May 31, 2022	June 15, 2022	\$0.04 per Unit

Consolidated Revenue & Net Operating Income

(\$000s)	Three months ended March 31		
	2022	2021	△%
Base rent	12,051	12,016	–
Recoveries	7,095	6,850	4
Other	718	1,655	(57)
Amortization of tenant incentives	(901)	(915)	(2)
SLR adjustment	2	(120)	(102)
Rental revenue	18,965	19,486	(3)
Operating expenses	3,629	3,582	1
Utilities and property taxes	4,380	4,312	2
Direct operating expenses	8,009	7,894	1
Net rental income	10,956	11,592	(5)
NOI¹	11,855	12,627	(6)
Same asset NOI¹	11,855	12,627	(6)
Operating margin²	58 %	59 %	(2)

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

Revenue

Rental revenue was down 3% compared to Q1-2021. Excluding the Early Termination event, revenue increased 3% over Q1-2021. Swings in SLR partially offset the higher other revenue in the comparative period.

Recoveries are amounts recovered from tenants for direct operating expenses and include a nominal administrative charge. We typically expect recovery revenue to correlate with changes in recoverable operating expenses. Recovery revenue was up 4% while direct operating expenses were up 1% in the quarter. The increase in our recovery ratio is due to timing of expenses, as well as the recognition of prior year recoveries in early 2022, which positively impacted current period revenue by \$0.1 million. Our recovery ratio can vary quarter over quarter due to variability of expenditures within our portfolio.

Other revenue includes parking, storage, lease amendment fees and other miscellaneous revenue that is ancillary to our business and fluctuates from period to period. Other revenue was significantly impacted by the Early Termination event in Q1-2021.

Amortization of tenant incentives can fluctuate based on the timing of lease rollovers and leasing incentives. SLR adjustments relate to new leases which have escalating rent rates and/or rent-free periods. SLR fluctuates due to the timing of signed leases and the rent-steps under individual leases. The Early Termination event, in conjunction with COVID-19 related lease restructures, contributed to lower SLR in 2021.

Direct operating expenses

Property taxes and utilities were up 2% in the quarter. Utility costs, including heating costs, fluctuate year over year depending on weather conditions in the regions where our assets are located. Property tax increases were the result of increased assessments over the prior year.

Operating expenses were up slightly, consistent with higher revenue excluding the Early Termination event.

NOI and Same-asset NOI

NOI and same-asset NOI are non-standard metrics used in the real estate industry to measure the performance of investment properties. The IFRS measure most directly comparable to NOI and same-asset NOI is net income.

NOI and same-asset NOI are identical in Q1-2022 as no transactions were completed within the trailing 24 months. NOI was down 6% in Q1-2022 compared to Q1-2021, and up 2% compared to Q4-2021. Excluding the Early Termination event, NOI was up 2% in the quarter.

The calculation of same-asset NOI is as follows:

(\$000s)	Three months ended March 31		
	2021	2020	△%
Same-asset NOI ¹	11,855	12,627	(6)%
NOI ¹	11,855	12,627	(6)%
Amortization of operating lease incentives	(901)	(915)	
SLR adjustment	2	(120)	
Net rental income	10,956	11,592	(5)%

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

The following table summarizes the leasing activity for 2022 year-to-date:

	Square feet	Weighted average base rent (per sf)	Occupancy %
Opening occupancy	2,800,231	\$16.73	87.1 %
Expiring leases	(159,842)	\$12.16	
Other terminations	(6,111)	\$13.65	
Renewals/holdovers	137,563	\$11.90	
New leasing	41,706	\$10.79	
Lease amendments	(2,983)	\$-	
Closing occupancy	2,810,564	\$16.61	87.4 %

During Q1-2022, we signed 179,269 sf of new and renewed leasing (including holdovers) which improved occupancy slightly to 87.4%. In 2022, 9.6% of our portfolio (308,989 sf) is up for renewal, including month-to-month tenants. As at March 31, 2022, we have retained 86.1% (137,563 sf) of expiring leases and have received commitment on an additional 117,527 sf of future renewals. Pockets of opportunity exist across our portfolio and in all asset classes, with indications of prior market softness reversing.

The following table summarizes our average base rent, GLA, occupancy and retention:

	Mar 31, 2022	Mar 31, 2021	△%	Dec 31, 2021	△%
Weighted average base rent (per sf)	\$16.61	\$16.66	-	\$16.73	(1)
Weighted average remaining lease term	3.87	3.98	(3)	3.86	-
GLA	3,215,025	3,212,581	-	3,216,175	-
Occupancy %	87.4 %	87.2 %	-	87.1 %	-
Retention %	86.1 %	72.4 %	19	81.7 %	5

Occupancy was up slightly at 87.4% while weighted average base rent was down slightly at \$16.61 (Q4-2021: 87.1% and \$16.73). Rates across asset classes on new leasing and renewals/holdovers are impacted by tenant incentives and lease structures and can vary significantly from period to period.

Property Analysis

At March 31, 2022 our portfolio included interests in 39 retail, office and industrial income-producing properties located in western Canada for a total of 3,215,025 sf of GLA, and a land lease community.

The following table summarizes the composition of our properties at March 31, 2022 by property type:

Property Type	Count	GLA (sf)/ Lots	% of Portfolio (GLA)	Fair Value of Investment Properties ¹	Net Rental Income	% of Net Rental Income
Retail	14	1,396,482	43.4 %	404,711	6,398	58.4 %
Office	21	1,610,452	50.1 %	264,242	3,610	33.0 %
Industrial	3	208,091	6.5 %	37,996	694	6.3 %
Land Lease Community	1	308 lots	n/a	16,200	254	2.3 %
	39	3,215,025	100.0 %	723,149	10,956	100.0 %

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

The following table details key financial and operational metrics for each of our asset classes for the three-months ended March 31, 2022:

	Retail		Office		Industrial		Land Lease Community	
	2022	2021	2022	2021	2022	2021	2022	2021
Three months ended March 31 (\$000s)								
Rental revenue	9,663	10,221	8,053	8,016	907	907	342	342
Net rental income	6,398	6,938	3,610	3,715	694	687	254	252
Same-asset NOI ¹	6,502	7,189	4,318	4,450	782	736	254	252
As at March 31								
WABR (sf)	\$19.85	\$19.88	\$13.50	\$13.69	\$14.94	\$14.73	n/a	n/a
Occupancy	93.1 %	91.4 %	80.9 %	81.9 %	100 %	100 %	100 %	100 %

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

Retail – our 14 retail properties include 6 multi-building regional power centres, 7 neighborhood shopping centres and a single tenant property. Rental revenue was down over Q1-2021 due to the impact of the Early Termination event in the comparable quarter. NOI was down 10%. Excluding the Early Termination event, rental revenue and NOI were up 5%. Recovery revenue was up 4% over Q1-2021 due to the timing of expenses and prior year adjustments. Straight line rent varies period to period, and was up \$0.20 million compared to Q1-2021 which positively impacted both rental revenue and NOI. Occupancy was up 1.7% while retail tenant retention is at 92.6% year-to-date.

Office – our 21 office properties include low and medium-rise buildings located in strategic urban and suburban centres. Our office portfolio is our most geographically diverse asset class, with properties across Alberta, in Regina, SK and Kelowna, BC. Net rental revenue was down slightly at \$3.61 million with retention for office tenants holding steady at 77.4% year-to-date. We're optimistic that the lifting of pandemic-related work from home orders will have a positive impact on future office leasing. We commenced 18,160 sf in new office leases in Q1-2022 and have 58,000 sf in new deals committed for future occupancy. NOI was down 3% in the quarter as we saw slight decreases of 1% in both occupancy and WABR.

Industrial – our 3 industrial properties include single- and multi-tenant buildings. These assets remain fully occupied to date in 2022. Revenue and NOI from industrial properties were flat in the quarter. Weighted average base rent was up \$0.21 due to rent step-ups on two leases since Q1-2021. This was offset by lower other revenue and non-cash adjustments related to SLR adjustments.

Land Lease Community – we have one land lease community in Calgary, AB, consisting of 308 pad lots. It was 100% occupied at March 31, 2022 (December 31, 2021 and March 31, 2021 – 100%). Revenue and NOI on our land lease community continue to be stable.

Regional Analysis

The following table summarizes the composition of our properties at March 31, 2022 by geographic region:

Region	Count	GLA (sf)	% of Portfolio (GLA)	Fair Value of Investment Properties ¹	Net Rental Income	% of Net Rental Income
<i>(\$000s unless noted)</i>						
Northern AB	22	1,958,354	60.9 %	431,858	6,168	56.3 %
Southern AB	10	887,210	27.6 %	226,336	3,826	34.9 %
Saskatchewan & BC	7	369,461	11.5 %	64,955	962	8.8 %
	39	3,215,025	100.0 %	723,149	10,956	100.0 %

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

The following table details key financial and operational metrics for each of our geographic regions for the three-months ended March 31, 2022:

	Northern AB		Southern AB		Saskatchewan & BC	
	2022	2021	2022	2021	2022	2021
Three months ended March 31 (\$000s)						
Rental revenue	11,230	11,786	5,789	5,799	1,946	1,901
Net rental income	6,168	6,795	3,826	3,786	962	1,011
Same-asset NOI ¹	6,728	7,479	4,054	4,023	1,073	1,125
As at March 31						
WABR (sf)	\$16.96	\$17.08	\$17.30	\$17.26	\$13.16	\$13.16
Occupancy	84.6 %	84.0 %	92.6 %	92.2 %	90.1 %	92.3 %

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

Northern Alberta – our Northern Alberta assets are located throughout the greater Edmonton area, including Leduc and Spruce Grove, and in Red Deer and Grande Prairie. Rental revenue for the region was down 5% in Q1-2022. Excluding the Early Termination event in the comparative period, rental revenue and NOI were up 4%. Occupancy improved slightly, contributing to increased rental revenue (excluding the above noted event). Our leasing team has an additional 69,900 sf in new deals committed for the region. WABR decreased slightly over the comparative period.

Southern Alberta – our Southern Alberta assets are located throughout the greater Calgary area, including Chestermere and Airdrie, and in Lethbridge. Rental revenue and NOI were flat in Q1-2022. Occupancy and WABR were up slightly.

Saskatchewan and British Columbia – our Saskatchewan and British Columbia assets are located in Regina, SK and Kelowna, BC. Rental revenue and same-asset NOI were up 2% and 5% respectively in Q1-2022. Occupancy decreased by 2% year-to-date; however, we have 3,400 sf committed from an expansion deal, bringing committed occupancy up to 91%.

General & Administrative Expense

(\$000s)	Three months ended March 31		
	2022	2021	△%
Asset management fee	479	479	–
Professional fees	93	109	(15)
Public company costs	129	135	(4)
Other	87	80	9
General & administrative expense	788	803	(2)

General & administrative (G&A) expense was \$0.79 million or 4% of rental revenue in Q1-2022. G&A was down 2% in the quarter due to decreased professional fees in 2022. Professional fees include audit, appraisal and legal fees. Appraisal fees have been lower 2022 due to the timing of valuation updates on our investment properties. We are committed to prudent financial stewardship and carefully monitor discretionary G&A expenses to ensure maximum value to our unitholders. We expect G&A to be approximately 5% of rental revenue.

Finance Costs

(\$000s)	Three months ended March 31		
	2022	2021	△%
Interest on mortgages payable and revolving credit facility	2,849	2,815	1
Interest on Class C LP Units	304	449	(32)
Interest on convertible debentures	888	888	–
Accretion on convertible debentures	154	145	6
Fair value adjustment on derivative instruments	(525)	1,763	nm
Amortization of deferred financing fees	351	313	12
Finance costs before distributions	4,021	6,373	(37)
Distributions on Class B LP Units	1,935	1,693	14
Finance costs	5,956	8,066	(26)

Finance costs before distributions were down \$2.35 million or 37% in Q1-2022 as a result of fluctuations in fair value adjustments on our derivative instruments. Excluding these amounts, finance costs were down 1% in the quarter. Distributions on Class B LP Units were up 14% consistent with our increase in distributions.

Interest on mortgages payable and revolving credit facility was up 1% over Q1-2021. A decrease in interest in our revolving credit facility (repaid Q3-2021) was offset by higher interest in mortgages over the comparative period. Lower interest on Class C LP units was due to repayments made in the past twelve months, which reduced the outstanding balance.

Distributions on Class B LP Units are recorded and paid to holders equal to those declared on trust units. Monthly distributions in 2022 have been \$0.04 per unit (Q1-2021: \$0.035 per unit).

As at March 31, 2022 the weighted average interest rate on our revolving credit facility, mortgages payable, Class C LP Units and convertible debentures was 3.61% (December 31, 2021 - 3.62%).

Income Taxes

As at March 31, 2022, the REIT qualifies as a mutual fund trust within the meaning of the Income Tax Act (Canada) and as a real estate investment trust eligible for the 'REIT Exception' under the Specified Investment Flow-Through (SIFT) rules; accordingly, no current or deferred income tax expense has been recognized on income earned or capital gains recognized subsequent to the formation of the REIT.

FFO, AFFO & ACFO

FFO, AFFO and ACFO are non-GAAP financial measures used in the real estate industry to measure the operating and cash flow performance of investment properties. Refer to the Non-GAAP Measures section of this MD&A for more information.

FFO & AFFO

We use Real Property Association of Canada (REALpac) definitions of some of our measures. REALpac is a national association representing the Canadian commercial real estate industry. REALpac defines FFO as net income (calculated in accordance with IFRS), adjusted for, among other things, fair value adjustments, amortization of tenant incentives and effects of puttable instruments classified as financial liabilities (distributions on Class B LP Units). The REIT calculates FFO in accordance with REALpac.

We believe that FFO is an important measure of operating performance and the performance of real estate properties, while AFFO is an important cash flow measure. AFFO is not a substitute for cash flow from operations as it does not include changes in operating assets and liabilities.

FFO and AFFO are not a substitute for net income established in accordance with IFRS when measuring the REIT's performance. While our methods of calculating FFO and AFFO comply with REALpac recommendations, they may differ from and not be comparable to those used by other entities.

(\$000s, except per unit amounts)	Three months ended March 31		
	2022	2021	△%
Net loss for the period	(6,538)	(24,439)	
Add / (deduct)			
Fair value adjustment on investment properties	3,662	401	
Fair value adjustment on Class B LP Units	7,095	26,768	
Amortization of tenant incentives	901	915	
Distributions on Class B LP Units	1,935	1,693	
Fair value adjustment on derivative instruments	(525)	1,763	
FFO¹	6,530	7,101	(8)
Deduct			
Straight-line rent adjustments	(2)	120	
Normalized capital expenditures	(588)	(587)	
Normalized tenant incentives and leasing commissions	(1,029)	(1,030)	
AFFO¹	4,911	5,604	(12)
FFO/Unit²	\$0.22	\$0.24	
AFFO/Unit²	\$0.17	\$0.19	
Weighted average number of units (000s): ³	29,090	29,171	—

1. Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.
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 and AFFO, the basic weighted average number of units includes Trust Units and Class B LP Units.

Our convertible debentures can be converted into trust units at the holder's option and are considered a dilutive instrument. The following table calculates diluted FFO and diluted FFO/Unit:

(\$000s, except per unit amounts)	Three months ended March 31		
	2022	2021	△%
FFO¹	6,530	7,101	(8)
Convertible debentures interest	888	888	
Amortization of deferred financing fees on convertible debentures	189	177	
Accretion on convertible debentures	154	145	
FFO - Diluted¹	7,761	8,311	(7)
FFO - Diluted/Unit²	\$0.21	\$0.23	
Diluted weighted average number of units (000s): ³	36,256	36,340	—

1. Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.
2. Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.
3. The diluted weighted average number of units includes Trust Units, Class B LP Units and convertible debentures.

Capital Expenditures

We continually invest in our assets with value-adding capital projects that enhance property quality, contributing to higher occupancy and rental rates. These investments typically focus on increasing operating efficiency, property attractiveness, functionality and desirability, as well as initiatives focused on sustainability and energy reduction to ensure our buildings are green. Asset enhancement and preservation investments fluctuate based on the nature and timing of projects undertaken, and are impacted by many factors including, but not limited to, the age and location of the property, and the leasing profile and strategy. The majority of building improvement expenditures are recoverable from tenants over 5-25 years. As actual expenditures can vary from one period to another, the REIT uses a normalized capital expenditure in determining AFFO and sustainable, economic cash flow of investment properties.

Normalized expenditures exclude new property development initiatives such as densification and non-recoverable capital expenses as these are discretionary in nature. Normalized capital expenditures are calculated based on a trailing 5 year historical actual spend plus 5 year projected spend.

The following summarizes our actual expenditures compared to normalized amounts:

(\$000s)	Three months ended	Year ended,
	March 31, 2022	December 31, 2021
Investment in property improvements	217	2,322
Actual capital expenditures	217	2,322
Normalized capital expenditures	588	2,352
Variance	(371)	(30)

Actual capital expenditures were less than normalized capital expenditures by \$0.37 million year-to-date due to the type and timing of projects undertaken. Our 2021 actual capital expenditure was \$2.3 million and we have planned capital projects of \$2.3 million for 2022.

Tenant Incentive & Direct Leasing Expenditures

Tenant incentives and direct leasing expenditures are part of our leasing strategy to attract and retain tenants. Tenant incentives are directly correlated with base rent achieved on leasing deals, with higher tenant incentives carrying higher base rent. Expenditures on any particular building are impacted by many factors including, but not limited to, the lease maturity profile and strategy, market conditions and the property's location and asset class. As actual expenditures can vary from one period to another, the REIT uses a normalized capital expenditure in determining AFFO and sustainable, economic cash flow of investment properties. Normalized tenant incentives are calculated based on a trailing 5 year actual spend plus 5 year projected spend.

The following summarizes our actual expenditures compared to normalized amounts:

(\$000s)	Three months ended	Year ended,
	March 31, 2022	December 31, 2021
Actual tenant incentives and direct leasing expenditures	3,764	6,246
Normalized tenant incentives and direct leasing expenditures	1,029	4,116
Variance	2,735	2,130

Tenant incentives and direct leasing costs trended ahead of budget due to some large leases signed in early 2022. The timing and type of leasing activity and market conditions causes fluctuations in spending during the year.

ACFO

REALpac defines ACFO as cash flow from operations adjusted for, among other things, changes in operating assets and liabilities, payments of tenant incentives and direct leasing costs, non-cash finance costs, normalized capital expenditures and normalized tenant incentives and direct leasing costs. We calculate ACFO in accordance with the guidelines set out by REALpac; however, our calculation may differ from and not be comparable to other entities.

(\$000s)	Three months ended March 31		
	2022	2021	△%
Cash flows from operations	4,293	5,793	(26)
Distributions on Class B LP Units	1,935	1,693	
Actual payment of tenant incentives and direct leasing costs	1,733	1,746	
Changes in operating assets and liabilities	(928)	(1,553)	
Amortization of deferred financing fees	351	(313)	
Normalized capital expenditures	(588)	(587)	
Normalized tenant incentives and leasing commissions	(1,029)	(1,030)	
ACFO¹	5,767	5,749	—
ACFO/Unit²	\$0.20	\$0.20	
Weighted average number of units (000s) ³	29,090	29,171	—

1. Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.
2. Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.
3. The diluted weighted average number of units includes Trust Units, Class B LP Units and convertible debentures.

In order to continue to qualify for the 'REIT Exception' as provided under the SIFT rules, we must allocate substantially all taxable income. As such, we allocate monthly distributions to unitholders as determined and approved by the Board of Trustees. Year-to-date monthly distributions to unitholders have been \$0.04 per unit, unchanged since August 2021 and an increase of 14% over Q1-2021. From January to July 2021, distributions were \$0.035 per unit. Distributions to unitholders in Q1-2022 were \$1.56 million for an ACFO payout ratio of 61% (2021 - \$1.37 million, ACFO payout ratio 53%).

We use ACFO in evaluating our ability to continue to fund distributions. The most similar IFRS measure is cash flow from operations.

Cash flow from operations, which includes Class B LP Unit distributions as a financing charge, exceeded distributions in the quarter as illustrated below.

(\$000s)	Three months ended March 31		
	2022	2021	△%
Cash flows from operations	4,293	5,793	(26)
Distributions on Class B LP Units	1,935	1,693	14
Cash flow from operations before Class B LP Unit Distributions	6,228	7,486	(17)
Distributions to unitholders	(1,556)	(1,369)	14
Distributions on Class B LP Units	(1,935)	(1,693)	14
Total distributions	(3,491)	(3,062)	14
Cash flow from operations before Class B LP Unit distributions less total distributions	2,737	4,424	(38)
Total distributions as a % of cash flow from operations before Class B LP Unit distributions	56 %	41 %	37

Investment Properties

We carry our investment properties at fair value in accordance with IFRS 13, Fair value measurement. The following table summarizes key metrics of our investment properties and components of the fair value calculation:

	Three months ended	Year ended,
	March 31, 2022	December 31, 2021
Number of properties	39	39
Total GLA (sf)	3,345,124	3,346,274
GLA (REIT owned %) (sf)	3,215,025	3,216,175
Fair value of portfolio (\$000s) ¹	723,149	723,729
Value per square foot	\$225	\$225
NOI (\$000s)	11,855	47,764
Weighted average capitalization rate	6.81 %	6.81 %
Weighted average terminal capitalization rate	6.90 %	6.90 %
Weighted average discount rate	7.86 %	7.86 %

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

Investment properties were valued by Melcor's internal valuation team as at March 31, 2022. Valuations performed during the three-month period resulted in fair value losses of \$3.66 million. Valuations performed during the year ended December 31, 2021 resulted in fair value gains of \$2.88 million.

As leases turnover, unit and/or building GLA is remeasured, resulting in changes to GLA.

The breakdown of our fair value adjustment on investment properties by geographic region is as follows:

(\$000s)	Three months ended March 31, 2022	Year ended, December 31, 2021
Northern Alberta	(3,426)	1,273
Southern Alberta	(167)	2,089
Saskatchewan & British Columbia	(69)	(483)
	(3,662)	2,879

COVID-19 has significantly impacted commercial real estate with continued market uncertainty impacting stabilized property income and capitalization/discount rates on many of our assets.

We realized fair value losses during the quarter related to tenant incentives that were capitalized to the property without a corresponding increase in property value. There were no other significant changes to fair value during the quarter.

The REIT will continue to monitor its portfolio and the market in assessing fair value changes and cautions readers that further fair value adjustments may be required in the future.

Fair values are most sensitive to changes in capitalization rates.

	March 31, 2022			December 31, 2021		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	5.50%	10.00%	6.81%	5.50%	10.00%	6.81%
Terminal capitalization rate	5.75%	9.00%	6.90%	5.75%	9.00%	6.90%
Discount rate	6.25%	9.75%	7.86%	6.25%	9.75%	7.86%

A capitalization rate increase of 50 basis points (+0.5%) would decrease the fair value of investment properties by \$49.70 million (December 31, 2021 - \$49.70 million) while a 50 basis points decrease (-0.5%) would increase it by \$57.50 million (December 31, 2021 - \$57.50 million).

Liquidity & Capital Resources

We employ a range of strategies to fund operations, with current cash conservation strategies ongoing in order to ensure long-term sustainability. Our principal liquidity needs are to:

- Fund recurring expenses;
- Meet debt service requirements;
- Make distribution payments;
- Fund capital projects; and
- Purchase investment properties.

We currently have cash conservation strategies in place to ensure long-term sustainability.

Cash Flows

The following table summarizes cash flows from operating, investing and financing activities:

(\$000s)	Three months ended March 31		
	2022	2021	△\$
Cash from operating activities	4,293	5,793	(1,500)
Cash used in investing activities	(217)	(179)	(38)
Cash used in financing activities	(3,459)	(4,895)	1,436
Increase in cash and cash equivalents	617	719	(102)
Cash and cash equivalents, beginning of the period	7,255	3,744	3,511
Cash and cash equivalents, end of the period	7,872	4,463	3,409

Operating activities

Cash from operating activities was down \$1.50 million in the quarter due to the Early Termination event in the comparative period and higher Class B LP Unit distributions as we increased our distribution. Leasing activities are trending ahead of budget for the year, and we are optimistic about leasing traction in our markets. Rent collections remain strong in 2022. Operating assets and liabilities fluctuate period over period.

Our tenant incentives and direct leasing cost investments were \$1.73 million in Q1-2022 (2021 - \$1.75 million). We completed 179,269 sf of new and renewed leasing, resulting in occupancy of 87.4% at quarter end. The timing of lease expiries impacts the level of spending on tenant incentives and direct leasing costs and will fluctuate from period to period.

Cash before adjustments for working capital and payments of tenant incentives and direct leasing costs decreased \$0.89 million in the quarter.

Investing activities

We have spent \$0.22 million on our scheduled maintenance program and other projects year-to-date (2021 - \$0.18 million). We remain committed to strategic value-adding asset enhancement and preservation projects as an integral component of our strategy to improve our assets and retain and attract tenants. We resumed our capital investment program in 2021 after pausing any non-essential spend in 2020. We anticipate spending \$2.3 million in 2022 on planned capital projects. Asset enhancement investments fluctuate based on the nature and timing of projects undertaken.

Financing activities

In Q1-2022 we received gross proceeds of \$7.75 million (net \$1.12 million) from the early re-financing to re-advance paid down equity on a mortgage held in a joint venture. The net proceeds will be used on capital projects for the property, with additional proceeds distributed to the partners.

We repurchased 3,824 (2021 - 38,477) units under our NCIB at a cost of \$0.03 million (2021 - \$0.23 million) year-to-date. Our NCIB expired on March 31, 2022 and was not renewed.

We paid distributions of \$1.56 million in Q1-2022 (2021 - \$1.30 million).

We believe that internally generated cash flows, supplemented by borrowings through our revolving credit facility and mortgage financings, where required, will be sufficient to cover our normal

operating, debt service, distribution and capital expenditure requirements. We regularly review our credit facility limits and manage our liquidity requirements accordingly.

As at March 31, 2022 we had \$7.87 million in cash and cash equivalents in addition to \$35.00 million in undrawn liquidity under our revolving credit facility.

Capital Structure

We define capital as the total of trust units, Class B LP Units, Class C LP Units, mortgages payable, convertible debentures and amounts drawn under our revolving credit facility.

Pursuant to the Declaration of Trust (DOT) Degree of Leverage Ratio, we may not incur or assume any indebtedness if, after incurring or assuming such indebtedness, our total indebtedness would be more than 60% of Gross Book Value (GBV) (65% including any convertible debentures). Throughout the period we were in compliance with the Degree of Leverage Ratio and had a ratio of 49% as at March 31, 2022 (58% including convertible debentures).

As at March 31, 2022, our total capitalization was \$733.09 million and is comprised of:

(\$000s)	March 31, 2022	December 31, 2021
Mortgages payable ¹	336,367	337,634
Class C LP Units	39,549	40,160
Indebtedness, excluding convertible debentures	375,916	377,794
Convertible debentures ²	68,975	68,975
Indebtedness	444,891	446,769
Class B LP Units at Historical Cost ³	160,207	160,207
Trust units, excluding transaction costs	127,989	128,027
Equity at historical cost	288,196	288,234
Total capitalization	733,087	735,003
Gross Book Value (GBV)⁴	766,457	766,457
Debt to GBV, excluding convertible debentures (maximum threshold - 60%) ⁵	49 %	49 %
Debt to GBV (maximum threshold - 65%) ⁵	58 %	58 %

1. Debts are presented excluding unamortized transaction costs and discount on bankers acceptance (as applicable).
2. Convertible debentures are presented at face value, excluding unamortized transaction costs and amounts allocated to conversion features.
3. Class B LP Units are classified as equity for purposes of this calculation and are included at their historical cost.
4. GBV is calculated as the cost of the total assets acquired and development costs less dispositions.
5. Debt to GBV is a Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.

We are also subject to financial covenants on our revolving credit facility. The covenants include a maximum debt to GBV ratio of 60% (excluding convertible debentures), a minimum debt service coverage ratio of 1.25, and a minimum adjusted unitholders' equity of \$140.00 million as defined within our credit agreement. As at March 31, 2022, and throughout the period, we were in compliance with our financial covenants, obligations and debt covenants. We prepare financial forecasts to monitor changes to our debt and capital levels and manage our ability to meet our financial covenants.

Indebtedness

Debt Repayment Schedule – the following table summarizes our contractual obligations and illustrates certain liquidity and capital resource requirements:

(\$000s)	as at March 31						
	Total	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Mortgages payable	336,367	36,885	45,869	46,642	22,851	53,370	130,750
Class C LP Units	39,549	13,757	14,769	463	478	10,082	–
Convertible debentures	68,975	22,975	–	46,000	–	–	–
Total	444,891	73,617	60,638	93,105	23,329	63,452	130,750
% of portfolio	100 %	17 %	14 %	21 %	5 %	14 %	29 %

We ladder the renewal and maturity dates on our borrowings as part of our capital management strategy. This mitigates the concentration of interest rate and financing risk associated with refinancing in any particular period. In addition, we try to match the maturity of our debt portfolio with the weighted average remaining lease term on our properties.

During the quarter we obtained new mortgage financing on one Calgary area asset for gross proceeds of \$7.75 million (net \$1.12 million) at an interest rate of 3.70%. Over the next twelve months, five mortgages are up for renewal with a maturing principal balance of \$28.58 million and a weighted average interest rate of 3.47%. We also have one property encumbered by Class C LP Units where the underlying mortgage, held by Melcor, is up for renewal in the next 12 months. The Class C LP Units have a maturing principal balance of \$12.42 million and an interest rate of 1.75%. Our 2017 Debenture, with an outstanding principal balance of \$22.98 million is set to mature on December 31, 2022. We are actively engaged with our lenders to review refinance options for this debenture. The REIT continues to monitor its secured debts and proactively engage with lenders in regards to upcoming maturities.

We have a revolving credit facility agreement with two western Canadian financial institutions. Under the terms of the amending agreement, the REIT maintains an available credit limit based on the carrying value of specific investment properties to a maximum of \$35.00 million for general corporate purposes and acquisitions, including a \$5.00 million swingline sub-facility. An additional \$15.00 million is available by way of an accordion feature, subject to lender approval. Depending on the form under which the credit facility is accessed, rates of interest will vary between prime plus 1.25% or bankers acceptance plus 2.25% stamping fee. The facility matures June 1, 2024. Unamortized transaction fees of \$0.10 million are included in other assets.

Debt Analysis – our mortgages payable, Class C LP Units and convertible debentures bear interest at fixed rates (including two variable rate mortgages fixed via a floating for fixed interest rate swap contract); our revolving credit facility bears interest at variable rates.

The following table summarizes the interest rates and terms to maturity:

(\$000s)	Total	Fixed	Variable	Weighted average interest rate	Weighted average term to maturity
Mortgages payable	336,367	302,691	33,676	3.36 %	5.01
Class C LP Units	39,549	39,549	–	3.09 %	1.81
Convertible debentures	68,975	68,975	–	5.15 %	2.08
Total	444,891	411,215	33,676	3.61 %	4.27

The weighted average interest rate on our debts was 3.61% (December 31, 2021 - 3.62%).

Debt Service Coverage Ratio and Finance Costs Coverage Ratio – Debt service coverage ratio is a non-GAAP ratio that we calculate as FFO divided by principal repayments on mortgages payable and Class C LP Units made during the period. Finance costs coverage ratio is a non-GAAP ratio that we calculate as FFO plus finance costs divided by finance costs expensed during the period, less distributions on Class B LP Units. We consider these measures to be useful in evaluating our ability to service our debt. These metrics are not calculated for purposes of covenant compliance on any of our debt facilities.

(\$000s)	Three months ended March 31, 2022	Year ended, December 31, 2021
FFO	6,530	26,681
Principal repayments on Mortgages payable	2,386	10,191
Principal repayments on Class C LP Units	611	2,744
Principal repayments	2,997	12,935
Debt service coverage ratio¹	2.18	2.06
FFO plus finance costs	11,076	45,049
Finance costs ²	4,546	18,368
Finance costs coverage ratio¹	2.44	2.45

1. Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.
2. Finance costs excluding finance expense recognized on Class B LP Unit distributions and fair value adjustment on derivative instruments.

Equity

The REIT is authorized to issue an unlimited number of trust units and an unlimited number of special voting units. Each trust unit represents a holder's proportionate undivided beneficial ownership interest in the REIT and will confer the right to one vote at any meeting of the unitholders and to receive any distributions by the REIT. Special voting units have no economic entitlement in the REIT but entitle the holder to one vote per special voting unit. Special voting units may only be issued in connection with securities exchangeable into trust units (including Class B LP Units).

Class B LP Units of the Partnership are economically equivalent to, and exchangeable into, trust units at the option of the holder, and therefore, are considered a dilutive instrument. The Class B LP Units are classified as financial liabilities in accordance with IAS 32, *Financial Instruments - presentation*, due to their puttable feature.

On April 1, 2021 we commenced a NCIB to buy back our trust units. We were entitled to purchase up to 652,525 trust units for cancellation, representing approximately 5% of the REIT's issued and outstanding trust units with a maximum daily limit of 3,824 units. The price the REIT paid for trust units repurchased under the plan was the market price at the time of acquisition. The NCIB ended on March 31, 2022. Prior to the NCIB ending, we purchased 3,824 units for \$0.03 million.

The following table summarizes the trust units issued and the fully diluted number of units outstanding as at March 31, 2022 and December 31, 2021:

Issued and fully paid units (\$000s except unit amounts)	March 31, 2022		December 31, 2021	
	Units	\$ Amount	Units	\$ Amount
Balance, beginning of period ¹	12,966,993	128,027	13,050,503	128,848
Issuance of trust units	–	–	2,173	25
Repurchase of trust units	(3,824)	(38)	(85,683)	(846)
Balance, end of period¹	12,963,169	127,989	12,966,993	128,027
<i>Dilutive securities</i>				
Class B LP Units Historical Cost ²	16,125,147	160,207	16,125,147	160,207
Convertible debentures ³	7,166,367	68,975	7,175,690	68,975
Diluted balance, end of period	36,254,683	357,171	36,267,830	357,209

1. Trust units are presented excluding transaction costs.
2. A corresponding number of special voting units are held by Melcor through an affiliate.
3. Convertible debentures are presented at face value, excluding unamortized transaction costs and amounts allocated to conversion feature.

Quarterly Results

	2022		2021			2020		
(\$000s except per unit amount)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	18,965	18,542	18,089	17,977	19,486	18,742	18,441	18,097
Net income (loss) ¹	(6,538)	5,301	7,470	(4,619)	(24,439)	(15,714)	(1,645)	(60,790)
NOI ⁴	11,855	11,640	11,915	11,852	12,627	12,186	10,567	11,739
Funds from operations (FFO) ⁴	6,530	6,371	6,639	6,570	7,101	6,590	5,417	6,513
Adjusted funds from operations (AFFO) ⁴	4,911	4,608	4,982	4,811	5,604	5,144	3,485	4,636
Adjusted cash flows from operations (ACFO) ⁴	5,767	7,675	5,131	4,956	5,749	5,283	3,593	4,740
Per unit metrics								
Basic earnings (loss) per unit	\$ (0.50)	\$ 0.98	\$ 0.58	\$ (0.36)	\$ (1.87)	\$ (1.20)	\$ (0.13)	\$ (4.64)
FFO (basic) ⁵	\$ 0.22	\$ 0.22	\$ 0.23	\$ 0.23	\$ 0.24	\$ 0.23	\$ 0.19	\$ 0.22
AFFO (basic) ⁵	\$ 0.17	\$ 0.16	\$ 0.17	\$ 0.17	\$ 0.19	\$ 0.18	\$ 0.12	\$ 0.16
ACFO (basic) ⁵	\$ 0.20	\$ 0.26	\$ 0.18	\$ 0.17	\$ 0.20	\$ 0.18	\$ 0.12	\$ 0.16
Annualized distribution rate ³	\$ 0.480	\$ 0.480	\$ 0.480	\$ 0.420	\$ 0.420	\$ 0.360	\$ 0.360	\$ 0.360
FFO Payout Ratio ⁵	53%	55%	50%	47%	43%	40%	48%	40%
AFFO Payout Ratio ⁵	71%	76%	67%	64%	55%	51%	75%	57%
ACFO Payout Ratio ⁵	61%	46%	65%	62%	53%	50%	73%	55%
Period-end closing unit price	\$7.23	\$6.79	\$6.85	\$6.90	\$6.49	\$4.83	\$3.83	\$3.70
Annualized distribution yield on closing unit price (%) ²	6.64%	7.07%	7.01%	6.09%	6.47%	7.45%	9.40%	9.73%

1. Net income (loss) is significantly impacted by the results of non-cash fair value adjustments on assets and liabilities carried at fair value. Management believes that FFO is a better measure of operating performance and that ACFO is a better measure of cash flows.
2. Annualized distribution yield is calculated as the annualized distribution rate divided by the period-end closing price.
3. The REIT increased its August 2021 distribution by 14% to \$0.04, which remained consistent through the end of 2021 and early 2022. This was the second increase to distributions of the prior year, following the 17% increase in January 2021. In response to the pandemic, the REIT cut its distribution to \$0.03 per unit for April 2020 from \$0.05625 per unit since IPO in May 2013.
4. Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.
5. Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.

Off Balance Sheet Arrangements, Contractual Obligations, Business Environment & Risks, Related Party Transactions, Critical Accounting Estimates, Changes in Accounting Policies

There were no material changes to the above titled sections at March 31, 2022 in comparison to the December 31, 2021 annual MD&A.

Internal Control over Financial Reporting and Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were material changes to internal control over financial reporting during the quarter ended March 31, 2022 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Melcor, the REIT's asset and property manager has continually responded to the COVID-19 pandemic by following the guidelines set forth by the Alberta government, at a minimum. As a result, the majority of Melcor's team has been working from home wherever practical until mid-March. Remote work arrangements have not impacted the design of our internal controls. The REIT continues to monitor and mitigate the risks associated with changes to its control environment.

Declaration of Trust

The investment guidelines and operating policies of the REIT are outlined in the Amended and Restated DOT dated May 1, 2013. A copy of the DOT is filed on SEDAR at www.sedar.com and is available on request to all unitholders. At May 5, 2022, the REIT was in compliance with all investment guidelines and operating policies stipulated in the DOT.

Non-GAAP and Non-Standard Measures

The REIT's financial statements are prepared in accordance with IFRS. Throughout this MD&A, we refer to terms known as non-GAAP financial performance measures that are not specifically defined in the CPA Canada Handbook or in IFRS. These non-standard measures may not be comparable to similar measures presented by other companies. We use REALpac definitions for FFO, ACFO and AFFO.

We believe that these non-standard measures are useful in assisting investors in understanding components of our financial results.

The non-standard terms that we refer to in this MD&A are defined below and are cross referenced, as applicable, to a reconciliation contained within this MD&A to the most comparable IFRS measure.

Calculations

We use the following calculations in measuring our performance.

Operating margin: is calculated as net rental income divided by rental revenue.

Net operating income (NOI): NOI is a non-GAAP financial measure and is defined as rental revenue, adjusted for amortization of tenant improvements and straight-line rent adjustments, less direct operating expenses as presented in the statement of income and comprehensive income. A reconciliation of NOI to the most comparable IFRS measure, net income, is as follows:

(\$000s)	Three months ended March 31		
	2022	2021	Δ%
Net loss for the period	(6,538)	(24,439)	
Net finance costs	5,949	8,059	
Fair value adjustment on Class B LP Units	7,095	26,768	
Fair value adjustment on investment properties	3,662	401	
General and administrative expenses	788	803	
Amortization of operating lease incentives	901	915	
Straight-line rent adjustment	(2)	120	
NOI	11,855	12,627	(6)

Further discussion on NOI can be found under the Consolidated Revenue & Net Operating Income section of the MD&A.

Same-asset NOI: Same-asset NOI is a non-GAAP financial measure that compares the NOI on assets that have been owned for the entire current and comparative period and are classified for continuing use. As there have been no asset acquisitions or dispositions in 2022 or 2021, same-asset NOI is equal to NOI. Further discussion over same-asset NOI can be found in the Consolidated Revenue & Net Operating Income section of the MD&A.

Funds from operations (FFO): FFO is a non-GAAP financial measure and is defined as net income in accordance with IFRS, excluding: (i) fair value adjustments on investment properties; (ii) gains (or losses) from sales of investment properties; (iii) amortization of tenant incentives; (iv) fair value adjustments, interest expense and other effects of redeemable units classified

as liabilities; (v) acquisition costs expensed as a result of the purchase of a property being accounted for as a business combination; and (vi) fair value adjustment on derivative instrument, after adjustments for equity accounted entities, joint ventures and non-controlling interests calculated to reflect FFO on the same basis as consolidated properties. Further discussion over FFO, including a reconciliation from net income, can be found in the Funds from Operations, Adjusted Funds from Operations & Adjusted Cash Flow from Operations section of the MD&A.

FFO per unit: FFO per unit is a non-GAAP ratio and is defined as FFO divided by weighted average trust units and weighted average Class B LP Units outstanding. Dilutive FFO includes the effect of the convertible debentures to the extent that their impact is dilutive. Further discussion over FFO per unit can be found in the Funds from Operations, Adjusted Funds from Operations & Adjusted Cash Flow from Operations section of the MD&A.

Adjusted funds from operations (AFFO): AFFO is a non-GAAP financial measure and is defined as FFO subject to certain adjustments, including: (i) adjusting for any differences resulting from recognizing property revenues on a straight-line basis; (ii) deducting a reserve for normalized maintenance capital expenditures, tenant inducements and leasing costs, as determined by us. Other adjustments may be made to AFFO as determined by the Board in its discretion. Further discussion over AFFO, including a reconciliation from net income, can be found in the Funds from Operations, Adjusted Funds from Operations & Adjusted Cash Flow from Operations section of the MD&A.

AFFO per unit: AFFO per unit is a non-GAAP ratio and is defined as AFFO divided by weighted average trust units and weighted average Class B LP Units outstanding. Further discussion over AFFO per unit can be found in the Funds from Operations, Adjusted Funds from Operations & Adjusted Cash Flow from Operations section of the MD&A.

Adjusted cash flows from operations (ACFO): ACFO is a non-GAAP financial measure and is defined as cash flows from operations subject to certain adjustments, including: (i) fair value adjustments and other effects of redeemable units classified as liabilities; (ii) payments of tenant incentives and direct leasing costs; (iii) changes in operating assets and liabilities which are not indicative of sustainable cash available for distribution; (iv) amortization of deferred financing fees; and (v) deducting a reserve for normalized maintenance capital expenditures, tenant inducements and leasing costs, as determined by us. Other adjustments may be made to ACFO as determined by the Board in its discretion. Further discussion over ACFO, including a reconciliation from net income, can be found in the Funds from Operations, Adjusted Funds from Operations & Adjusted Cash Flow from Operations section of the MD&A.

ACFO per unit: ACFO per unit is a non-GAAP ratio and is defined as ACFO divided by weighted average trust units and weighted average Class B LP Units outstanding. Further discussion over ACFO per unit can be found in the Funds from Operations, Adjusted Funds from Operations & Adjusted Cash Flow from Operations section of the MD&A.

FFO, AFFO and ACFO Payout ratio: FFO, AFFO and ACFO payout ratios are non-GAAP ratio and is calculated as per unit distributions divided by basic per unit FFO, AFFO and ACFO. Further discussion over FFO per unit can be found in the Funds from Operations, Adjusted Funds from Operations & Adjusted Cash Flow from Operations section of the MD&A.

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. Further discussion over finance costs coverage ratio, including a calculation, can be found in the Liquidity & Capital Resources section of the MD&A.

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. Further discussion over debt service coverage ratio, including a calculation, can be found in the Liquidity & Capital Resources section of the MD&A.

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. Further discussion over debt to GBV, including a calculation, can be found in the Liquidity & Capital Resources section of the MD&A.

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 March 31		
	2022	2021	△%
Net loss for the period	(6,538)	(24,439)	
Fair value adjustment on Class B LP Units	7,095	26,768	
Fair value adjustment on investment properties	3,662	401	
Fair value adjustment on derivative instruments	(525)	1,763	
Income before fair value adjustment and taxes	3,694	4,493	(18)

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).