

# Press Release

for immediate distribution

## Melcor REIT announces first quarter 2022 results

Edmonton, Alberta | May 5, 2022

### Highlights (compared to Q1-2021)

#### First Quarter Results:

- Revenue was down 3% at \$18.97 million.
- Net operating income (NOI) was down 6% to \$11.86 million.
- Funds from operation (FFO) was down 8% to \$6.53 million or \$0.22 per unit.
- Adjusted cash from operations (ACFO) was stable at \$5.77 million or \$0.20 per unit.
- Occupancy was up slightly at 87.4%.
- Distributions of \$0.04 per unit were paid in January through March for a ACFO payout ratio of 61%.

#### Results, excluding Early Termination event<sup>1</sup>:

- Revenue was up 3%.
- NOI was up 2%.
- FFO was up 7% or \$0.43 million.

1. *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.*

Melcor REIT (TSX: MR.UN) today announced results for the first quarter ended March 31, 2022. Rental revenue was down 3% at \$18.97 million and NOI was down 6% to \$11.86 million, primarily due to the Early Termination event contributing \$1.00 million in other revenue in Q1-2021. Excluding this event, revenue was up 3% and NOI was up 2%. ACFO was stable at \$5.77 million or \$0.20 per unit. Occupancy was up slightly over year-end and we retained 86.1% of expiring leases year-to-date. Leasing activity has been positive with 179,269 sf of new and renewed leasing (including holdovers) signed in the quarter.

Andrew Melton, CEO of Melcor REIT commented: "The REIT is pleased to report stable results for the first quarter of 2022. As work from home orders have been lifted, many people, including Melcor Developments staff, have returned to their office settings in the quarter. 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.

Our reported revenue and NOI are slightly skewed due to Early Termination event fees of \$1.00 million received in the comparable quarter. Excluding this event, portfolio performance was stable overall.

In the first quarter we announced the addition of two major tenants comprised of 40,000 sf in two properties. Habitat for Humanity ReStore in Red Deer, AB is now open and we will welcome Innovate Edmonton to 10117 Jasper Avenue in the fall. Sustainable development and green initiatives are common considerations for tenants when choosing new space. As participants in the Edmonton Corporate Climate Leaders Program, we are in the process of setting targets for climate action for 2025 and 2035. We expect to solidify these targets and communicate them to stakeholders.

On April 11, 2022, we welcomed Randy Ferguson to the role of Senior Vice-President, Investment Properties. Randy brings over 40 years of real estate experience to our team and will be responsible for the REIT's entire portfolio of 39 income-producing properties in addition to Melcor's portfolio.

Our distributions increased by 14% to \$0.04 per unit compared to \$0.035 per unit in Q1-2021. Subsequent to quarter-end, the Board of Trustees declared distributions for April and May 2022, unchanged from previous months."

### FIRST QUARTER 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

### FINANCIAL HIGHLIGHTS & KEY PERFORMANCE INDICATORS (KPI)

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

	Three months ended March 31		
	2022	2021	△%
<b>Per Unit Metrics</b>			
Net loss			
Basic	<b>(\$0.50)</b>	(\$1.87)	
Diluted	<b>(\$0.50)</b>	(\$1.87)	
Weighted average number of units for net income (loss) (000s): <sup>1</sup>			
Basic	<b>12,987</b>	13,046	– %
Diluted	<b>12,987</b>	13,046	– %
FFO			
Basic <sup>2</sup>	<b>\$0.22</b>	\$0.24	
Diluted <sup>2</sup>	<b>\$0.21</b>	\$0.23	
Payout ratio <sup>2</sup>	<b>53 %</b>	43 %	
AFFO			
Basic <sup>2</sup>	<b>\$0.17</b>	\$0.19	
Payout ratio <sup>2</sup>	<b>71 %</b>	55 %	
ACFO			
Basic <sup>2</sup>	<b>\$0.20</b>	\$0.20	
Payout ratio <sup>2</sup>	<b>61 %</b>	53 %	
Weighted average number of units for FFO, AFFO and ACFO (000s): <sup>3</sup>			
Basic	<b>29,090</b>	29,171	– %
Diluted	<b>36,258</b>	36,340	– %

- 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.
- Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.
- 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.

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

- 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.
- 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.
- Debt to GBV is a Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.
- 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.
- 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.

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)%

### 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 Q1-2022 quarterly report to unitholders. The REIT's consolidated financial statements and management's discussion and analysis for the three-months ended March 31, 2022 can be found on the REIT's website at [www.MelcorREIT.ca](http://www.MelcorREIT.ca) or on SEDAR ([www.sedar.com](http://www.sedar.com)).

### Conference Call & Webcast

Unitholders and interested parties are invited to join management on a conference call to be held May 6, 2021 at 11:00 AM ET (9:00 AM MT). Call 416-915-3239 in the Toronto area; 1-800-319-4610 toll free.

The call will also be webcast (listen only) at <https://www.gowebcasting.com/11763>. 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 39 properties representing approximately 3.22 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](http://www.MelcorREIT.ca).

## Non-standard Measures

NOI, FFO, AFFO and ACFO are key measures of performance used by real estate operating companies; however, they are not defined by International Financial Reporting Standards (IFRS), do not have standard meanings and may not be comparable with other industries or income trusts. These non-IFRS measures are defined and discussed in the REIT's MD&A for the quarter ended March 31, 2022, which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

**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 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	
<b>Income before fair value adjustment and taxes</b>	<b>3,694</b>	<b>4,493</b>	<b>(18)</b>

**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		
	2022	2021	△%
<b>Net loss for the period</b>	<b>(6,538)</b>	(24,439)	
Net finance costs	<b>5,949</b>	8,059	
Fair value adjustment on Class B LP Units	<b>7,095</b>	26,768	
Fair value adjustment on investment properties	<b>3,662</b>	401	
General and administrative expenses	<b>788</b>	803	
Amortization of operating lease incentives	<b>901</b>	915	
Straight-line rent adjustment	<b>(2)</b>	120	
<b>NOI</b>	<b>11,855</b>	12,627	(6)

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

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

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

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

ACFO Reconciliation (\$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)	
<b>ACFO<sup>1</sup></b>	<b>5,767</b>	5,749	–
<b>ACFO/Unit<sup>2</sup></b>	<b>\$0.20</b>	\$0.20	
Weighted average number of units (000s) <sup>3</sup>	<b>29,090</b>	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.

### 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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