Management's Discussion & Analysis

May 2, 2023

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, 2023 and the MD&A and consolidated financial statements and related notes for the year ended December 31, 2022. The discussion outlines strategies and provides analysis of our financial performance for the first quarter of 2023.

The underlying financial statements in this MD&A, including 2022 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 2, 2023. Disclosure contained in this MD&A is current to May 2, 2023, 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.

Caution Regarding 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 2023 and beyond, future leasing, acquisitions, disposals 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 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 2022 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.

TABLE OF CONTENTS

Our Business	2	FFO, AFFO & ACFO	11
Highlights & KPI's	3	Investment Properties	14
Consolidated Revenue & Net Operating Income	6	Liquidity & Capital Resources	15
Property Analysis	8	Quarterly Results	19
Regional Analysis	9	Off Balance Sheet Arrangements, Contractual Obligations, Business Environment & Risks, Related Party Transactions, Critical Accounting Estimates, Changes in Accounting Policies	20
General & Administrative Expense	10	Internal Control over Financial Reporting & Disclosure Controls	20
Finance Costs	10	Non-GAAP and Non-Standard Measures	20
Income Taxes	11		

Our Business

The REIT has an established and diversified portfolio in western Canada. We own 38 income-producing office, retail and industrial properties representing 3.15 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.

As at May 2, 2023, Melcor, through an affiliate, holds an approximate 55.4% effective interest in the REIT through ownership of all Class B LP Units. Furthermore, Melton Holdings Ltd. owns approximately 50.2% of the outstanding shares of Melcor and pursuant to IAS 24, Related Party Disclosures, is the ultimate controlling shareholder.

Melcor, a real estate company founded in 1923, had a rich history of growth and performance prior to the formation of the REIT. Our strategy is to grow and improve our asset base, and our objective is to provide stable monthly cash distributions to unitholders. Our growth strategy is contingent on favourable capital market conditions, which have proven unfavourable over the past several years. We have maintained a stable distribution of $0.04 per unit per month since August 2021.

Acquire

We continue to seek out suitable acquisitions to expand our asset base as conditions allow. Our strategy is to increase penetration in existing geographic markets, diversify our property portfolio and expand to adjacent geographic markets and asset classes to build value within our portfolio. No acquisitions have been completed since 2019 due to pandemic-related interruptions to normal business operations from 2020 to early 2022 and the impact on our unit price, resulting in cautious capital outlay.

Improve

There are two key components to improving our existing assets – property management and asset enhancement. The goals of our property management and asset enhancement programs are to maximize occupancy, maximize tenant retention and increase rental income.

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. Our customer care app, MelCARE, 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 is at 95% year-to-date in 2023.

We enjoy strong, long-term relationships with our clients, some of whom have been with Melcor for over 30 years.

Asset Enhancement:

We continually improve our assets with value-adding investments to enhance the quality of our properties, which leads to higher occupancy and rental rates. These upgrades typically focus on increasing operating efficiency, property attractiveness, functionality and desirability. We use our intimate knowledge of the buildings we operate to support capital investment decisions, optimize operating efficiency and continuously improve our buildings for enhanced client satisfaction.

Our buildings undergo annual assessments to identify preventative maintenance and capital investment requirements, and we continue to monitor and log all equipment and maintenance activity. Many of our continuous improvement initiatives focus on sustainability and energy reduction strategies to ensure our buildings are working towards becoming more energy efficient. As we upgrade and replace equipment, we do so with technology that promotes energy efficiency. We also engage specialists to monitor and analyze our energy usage to identify ways it can be improved.

In 2021, Melcor joined the Edmonton Corporate Climate Leaders Program. We completed benchmarking our energy usage at Edmonton-based office buildings in 2022 and are working on setting appropriate targets for our business.

Acquisitions & Dispositions

We continually review our asset portfolio to identify opportunities to strategically acquire of dispose assets. We remain focused on pruning non-core assets with a view to mitigate against market and tenancy exposures and maximize return on investment.

One property was held for sale at December 31, 2022 with the sale closing on February 1, 2023. This property was a 71,600 sf office building with main floor retail on a 2.8 acre site in Kelowna and sold for gross proceeds of $19.50 million ($272.24/sf), resulting in net cash proceeds of $9.00 million after mortgage repayment. This asset has been owned by the REIT since 2013 and prior to that had been owned by Melcor Developments since 2006. This was an opportunistic sale that enabled the REIT to pay down our line of credit while also achieving a good return on investment for unitholders.

Glossary of Acronyms

Common acronyms used throughout our MD&A are defined here.

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

Please refer to Non-GAAP and Non-Standard Measures on page 20 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.

KPI's:

	Three months ended March 31		
($000's)	**2023**	2022	△%
NOI[1]	**11,522**	11,855	(3)
Same-asset NOI[1]	**11,492**	11,687	(2)
FFO[1]	**6,008**	6,530	(8)
AFFO[1]	**3,659**	4,911	(25)
ACFO[1]	**3,776**	5,767	(35)
Rental revenue	**18,990**	18,965	–
Income before fair value adjustments[1]	**3,015**	3,694	(18)
Fair value adjustment on investment properties[2]	**(1,586)**	(3,662)	nm
Cash flows from operations	**1,882**	4,293	(56)
Distributions paid to unitholders	**1,556**	1,556	–
Distributions paid[3]	**$0.12**	$0.12	–

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 since August 2021.*

Operational Highlights:

	March 31, 2023	December 31, 2022	△%
Number of properties	**38**	39	(3)
GLA (sf)	**3,146,006**	3,216,141	(2)
Occupancy (weighted by GLA)	**88.4 %**	88.1 %	–
Retention (weighted by GLA)	**95.5 %**	86.1 %	11
Weighted average remaining lease term (years)	**3.80**	4.25	(11)
Weighted average base rent (per sf)	**$16.64**	$16.55	1

Balance Sheet Highlights:

	March 31, 2023	December 31, 2022	△%
Total assets ($000s)	**709,578**	730,769	(3)
Equity at historical cost ($000s)[1]	**288,196**	288,196	–
Indebtedness ($000s)[2]	**421,537**	440,688	(4)
Weighted average interest rate on debt	**3.99 %**	4.01 %	–
Debt to GBV, excluding convertible debentures (maximum threshold - 60%)[3]	**50 %**	51 %	(2)
Debt to GBV (maximum threshold - 65%)[3]	**56 %**	57 %	(2)
Finance costs coverage ratio[4]	**2.22**	2.32	(4)
Debt service coverage ratio[5]	**1.90**	1.88	1

1. *Calculated as the sum of trust units and Class B LP Units at their historical cost value. In accordance with IFRS the Class B LP Units are presented as a financial liability in the consolidated financial statements. Please refer to the Liquidity & Capital Resources section of the MD&A, starting on page 15 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 the Liquidity & Capital Resources section of the MD&A, starting on page 15 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. 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.*

Per Unit Metrics:

	Three months ended March 31		
	2023	2022	△%
Net income (loss)			
Basic	**$0.28**	($0.50)	
Diluted	**$0.09**	($0.50)	
Weighted average number of units for net income (loss) (000s):[1]			
Basic	**12,963**	12,987	–
Diluted	**29,088**	12,987	124
FFO			
Basic[2]	**$0.21**	$0.22	
Diluted[2]	**$0.20**	$0.21	
Payout ratio[2]	**58%**	53%	
AFFO			
Basic [2]	**$0.13**	$0.17	
Payout ratio[2]	**95%**	71%	
ACFO			
Basic[2]	**$0.13**	$0.20	
Payout ratio[2]	**92%**	61%	
Weighted average number of units for FFO, AFFO and ACFO (000s):[3]			
Basic	**29,088**	29,090	–
Diluted	**34,257**	36,256	(6)

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.*

HIGHLIGHTS:

Our portfolio continued to produce stable results in the first quarter despite rising costs and inflationary pressures in all our markets. We continue to focus efforts on leasing and completed 25,328 sf of new leasing and 196,449 sf in renewals and holdovers in the quarter for a 95.5% retention rate. These leasing efforts have resulted in an overall increase in occupancy to 88.4%, up 0.3% since year end and up 1.0% since Q1-2022. Weighted average base rents (WABR) also improved 1% since year end despite challenging market conditions.

On February 1, 2023 we sold Kelowna Business Centre, an office building located in Kelowna, BC for gross proceeds of $19.50 million. This asset has been owned by the REIT since 2013 and prior to that was owned by Melcor Developments since 2006. This was an opportunistic sale that enabled the REIT to pay down our line of credit while also achieving a good return on investment for unitholders.

Retail properties continue to anchor our portfolio, and have seen improvements in both occupancy and WABR compared to last year. Retail represents 44.4% of our total GLA and 60.1% of net rental income in Q1-2023. 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. Despite these pressures, occupancy has increased over Q1-2022 by 0.7% and by 0.4% since year-end. In Q1-2023, we completed new leasing of 25,328 sf, which includes 21,998 sf office space and 3,330 sf retail space, all in our Northern Alberta region.

In the quarter, rental revenue and net rental income remained steady and NOI decreased by 3% due in part to the timing of operating expenses and increased utility costs including gas/heat and power. Revenue stability is a result of improved occupancy which directly increases recovery revenue, as more tenant space is occupied. Base rents were down 1% due to the sale of Kelowna Business Center. On a same-asset basis, both base rents and total rental revenue were up 1%.

We adjusted our normalized capital expenditures estimates at the end of 2022 to account for increases realized in the past and projections for future spend required to property manage our assets to attract and retain tenants. This increase in estimate resulted in a reduction to both adjusted funds from operations (down 25%) and adjusted cash from operations (down 35%). These reductions had an inverse effect on our payout ratios, which were both up significantly over Q1-2022.

On February 10, 2023 we entered in the fourth amendment to our revolving credit agreement with our existing lenders (the "Credit Facility Amendment"). The most significant amendments were increasing our available credit from $35.00 million to $50.00 million and adding an investment property with a carrying value of $11.91 million as collateral.

FINANCIAL HIGHLIGHTS

Financial highlights of our performance are summarized below.

- Revenue remained stable at $18.99 million (Q1-2022: $18.97 million)
- NOI was down 3% at $11.52 million (Q1-2022: $11.86 million)
- FFO was down 8% to $6.01 million or $0.21 per unit (Q1-2022: $6.53 million or $0.22 per unit)
- ACFO was down 35% at $3.78 million or $0.13 per unit (Q1-2022: $5.77 million or $0.20 per unit). Our quarterly payout ratio was 92% based on ACFO (Q1-2022: 61%)

As at March 31, 2023 we had $3.31 million in cash and $25.57 million in undrawn liquidity under our revolving credit facility. We renewed financing on one property for $2.00 million at a rate of 5.69% in Q1-2023.

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 the non-cash fair value adjustments described above and thus not a meaningful metric to assess financial performance.

OPERATING HIGHLIGHTS

We are pleased with the volume of new leasing activity across our portfolio. Leasing in the quarter includes 221,777 sf of new and renewed leases (including holdovers) and we have retained 95% 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 90%. Leasing efforts yielded a WABR increase of 1% across the portfolio in Q1-2023, which will help offset rising costs.

DISTRIBUTIONS

Our monthly distributions remained at $0.04 per unit, stable over year-end. The quarterly payout ratio was 92% based on ACFO and 58% based on FFO (Q1-2022: ACFO: 61% and FFO: 53%).

SUBSEQUENT EVENT

On April 14, 2023 we declared the following distributions:

Month	Declaration Date	Record Date	Distribution Amount
April 2023	April 28, 2023	May 15, 2023	$0.04 per unit
May 2023	May 31, 2023	June 15, 2023	$0.04 per unit
June 2023	June 30, 2023	July 14, 2023	$0.04 per unit

Consolidated Revenue & Net Operating Income

($000s)	Three months ended March 31 2023	2022	△%
Base rent	**11,986**	12,051	(1)
Recoveries	**7,283**	7,095	3
Other	**605**	718	(16)
Amortization of tenant incentives	**(1,058)**	(901)	17
SLR adjustment	**174**	2	8,600
Rental revenue	**18,990**	18,965	–
Operating expenses	**3,913**	3,629	8
Utilities and property taxes	**4,439**	4,380	1
Direct operating expenses	**8,352**	8,009	4
Net rental income	**10,638**	10,956	(3)
NOI[1]	**11,522**	11,855	(3)
Same-asset NOI[1]	**11,492**	11,687	(2)
Operating margin[2]	**56 %**	58 %	(3)

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 remained stable compared to Q1-2022 while NOI and net rental income both decreased by 3%. Same-asset NOI, which removes property sold in the period (Kelowna Business Centre), was down 2% compared to Q1-2022 as costs increased more than revenue on remaining assets held. 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. In the quarter, recovery revenue was up 3% and direct operating expenses were up 4%. Our recovery ratio can vary quarter over quarter due to variability of expenditures within our portfolio, and the timing of expenses incurred. Prior year recovery adjustments can also impact our recovery ratio and are generally recognized in the first quarter.

Other revenue includes parking, storage, lease amendment and termination fees as well as other miscellaneous revenue that is ancillary to our business and fluctuates from period to period.

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.

Direct operating expenses

Property taxes and utilities were up 1% in the quarter. Utility costs, including heating and power costs, have seen significant increases over the last 12 months. Weather conditions in the regions where our assets are located can also impact both heating and air conditioning, the major utility consumers. Property tax increases were the result of increased mill rates over the prior year.

Q1-2023 operating expenses were up due to the timing of maintenance projects and overall inflationary pressures which are impacting all industries.

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. Refer to the Non-GAAP and Non-Standard Measures section for reconciliation of NOI to net income.

Same-asset NOI in the current and comparative periods exclude Kelowna Business Center, which was sold on February 1, 2023. There have been no other acquisitions or dispositions over the past three years. NOI was down 3% and same-asset NOI was down 2% in the quarter.

The calculation of same-asset NOI is as follows:

	Three months ended March 31		
($000s)	**2023**	2022	△%
Same-asset NOI[1]	**11,492**	11,687	(2)%
Disposals	**30**	168	
NOI[1]	**11,522**	11,855	(3)%
Amortization of tenant incentives	**(1,058)**	(901)	
SLR adjustment	**174**	2	
Net rental income	**10,638**	10,956	(3)%

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

The following table summarizes leasing activity in Q1-2023:

	Square feet	Weighted average base rent (per sf)	Occupancy %
Opening occupancy	**2,832,467**	**$16.55**	**88.1 %**
Expiring leases	(205,750)	$14.61	
Other terminations	(4,247)	$6.72	
Renewals/holdovers	196,449	$14.75	
New leasing	25,328	$13.10	
Lease amendments	7,661	$–	
Investment property sold	(71,629)	$14.22	
Closing occupancy	**2,780,279**	**$16.64**	**88.4 %**

To date, we have signed 221,777 sf of new and renewed leasing (including holdovers). In 2023, 615,485 sf of our portfolio was up for renewal, including month-to-month tenants.

As at March 31, 2023, we have retained 95% (196,449 sf) of expiring leases and have received commitment on an additional 47,116 sf of future renewals representing a committed occupancy of 90%. We completed 25,328 sf in new leases, and grew existing tenants by 7,661 sf in occupied space. Kelowna Business Centre, a 71,629 sf office asset was removed from both total GLA and closing occupancy.

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

	Mar 31, 2023	Mar 31, 2022	△%	Dec 31, 2022	△%
Weighted average base rent (per sf)	**$16.64**	$16.61	–	$16.55	1
Weighted average remaining lease term	**3.80**	3.87	(2)	4.25	(11)
GLA	**3,146,006**	3,215,025	(2)	3,216,141	(2)
Occupancy %	**88.4 %**	87.4 %	1	88.1 %	–
Retention %	**95.5 %**	86.1 %	11	86.1 %	11

Q1-2023 occupancy was 88.4%, up 1.1% over the prior period (Q1-2022: 87.4%) with a moderate sequential increase (Q4-2022: 88.1%). WABR also increased by $0.03 over the prior period to $16.64 and by $0.09 sequentially. 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, 2023 our portfolio included interests in 38 retail, office and industrial income-producing properties located in western Canada for a total of 3,146,006 sf of GLA, and a land lease community.

The following table summarizes the composition of our properties at March 31, 2023 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	1,396,486	44.4 %	411,704	6,397	60.1 %
Office	20	1,541,429	49.0 %	231,686	3,251	30.6 %
Industrial	3	208,091	6.6 %	39,696	735	6.9 %
Land Lease Community	1	308 lots	n/a	16,800	255	2.4 %
	38	3,146,006	100.0 %	699,886	10,638	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, 2023:

	Retail		Office		Industrial		Land Lease Community	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
Three months ended March 31 ($000s)								
Rental revenue	**9,762**	9,663	**7,911**	8,053	**965**	907	**352**	342
Net rental income	**6,397**	6,398	**3,251**	3,610	**735**	694	**255**	254
Same-asset NOI[1]	**6,603**	6,502	**3,843**	4,149	**791**	782	**255**	254
As at March 31								
WABR (sf)	**$20.03**	$19.85	**$13.20**	$13.50	**$15.17**	$14.94	n/a	n/a
Occupancy	**94.2 %**	93.1 %	**81.6 %**	80.9 %	**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 up 1% and net rental income and NOI remained stable in the quarter.

WABR increased by $0.18/sf from the prior period and by $0.13/sf sequentially. This growth contributed to the 2% increase in base rent and the 5% increase in recovery revenue. Recovery revenue was also impacted by the 3% increase in direct operating costs. Compared to year end, occupancy remained stable (Q4-2022 - 94.4%) and WABR was up $0.13 (Q4-2022 - $19.90)

Straight-line rent varies period to period and was down $0.45 million in the quarter which negatively impacted both revenue and net rental income.

At the end of the quarter, occupancy on our retail properties was 94% , and retail tenant retention is strong at 96% year-to-date including renewals and holdovers.

Office – our 20 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. Rental revenue was down 2% and net rental income was down 10% on our office assets. On a same-asset basis, NOI was down 7% in the quarter.

Occupancy increased 1% since Q1-2022 and by 0.5% sequentially (Q4-2022: 81.1%). Our focus remains on leasing vacant space in the competitive Edmonton market where the majority of our office assets are located. We retained 94% of the 73,341 sf that was up for renewal in the quarter, which includes both renewals and holdovers. We also signed 21,998 sf in new leases which contributed to improved occupancy.

WABR was down $0.30 per sf over the prior period and $0.10 sequentially (Q4-2022: $13.30). Although a full-return to the office has been slower then anticipated, we remain optimistic about the future of office, potentially in reimagined forms to meet current trends.

Same-asset NOI excludes the property sold on February 1, 2023 from both the current year and comparative periods.

Industrial – our 3 industrial properties include both single- and multi-tenant buildings. These assets remain fully occupied to date. WABR was up $0.23 in the period and $0.25 sequentially (Q4-2022: $14.92) due to rent step-ups on current leases, leading to a 6% increase in rental revenue compared to Q1-2023. With rising property taxes, this asset class had a correlating 8% increase in direct operating expenses.

Land Lease Community – we have one land lease community in Calgary, AB, consisting of 308 pad lots. It remains 100% occupied at March 31, 2023. Our land lease community continues to provide stable rental revenue and NOI.

Regional Analysis

The following table summarizes the composition of our properties at March 31, 2023 by geographic region:

Region	Count	GLA (sf)	% of Portfolio (GLA)	Fair Value of Investment Properties[1]	Net Rental Income	% of Net Rental Income
Northern AB	22	1,959,315	62.0 %	428,961	6,004	56.4 %
Southern AB	10	889,283	28.0 %	220,325	3,845	36.2 %
Saskatchewan & BC	6	297,408	10.0 %	50,600	789	7.4 %
	38	3,146,006	100.0 %	699,886	10,638	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, 2023:

	Northern AB		Southern AB		Saskatchewan & BC	
	2023	2022	**2023**	2022	**2023**	2022
Three months ended March 31 ($000s)						
Rental revenue	**11,374**	11,230	**5,889**	5,789	**1,727**	1,946
Net rental income	**6,004**	6,168	**3,845**	3,826	**789**	962
Same-asset NOI[1]	**6,579**	6,728	**4,059**	4,054	**854**	905
As at March 31						
WABR (sf)	**$16.74**	$16.96	**$17.59**	$17.30	**$13.17**	$13.16
Occupancy	**85.9 %**	84.6 %	**92.4 %**	92.6 %	**92.3 %**	90.1 %

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 was up 2% and NOI was down 2% in the quarter.

Recovery revenue is driven by both occupancy as well as direct operating costs, as we can only recover costs on occupied space. Recovery revenue was up 7% compared to Q1-2022 as a result of improved occupancy and higher direct operating costs. This was offset by swings in other revenue, straight-line rent adjustments and amortization of tenant incentives.

Occupancy has improved 1% since Q1-2022 and 1% since year-end (Q4-2022: 84.9%). WABR was down slightly for the region 1% compared to Q1-2022 and has remained stable since year end (Q4-2022: $16.82).

Net rental income was down 3% in the quarter due to higher operating expenses which were not fully recovered.

Retention in the quarter was 93% on 139,237 sf of space up for renewal, which includes both renewals and holdovers. We also signed 25,328 sf in new leasing in the quarter.

Southern Alberta - our Southern Alberta assets are located throughout the greater Calgary area, including Chestermere and Airdrie, and in Lethbridge. Rental revenue was up 2% in the quarter and NOI remained stable. Occupancy has remained at 92% since year end, and is down 0.2% since Q1-2022. WABR is up slightly since both year end (Q4-2022: $17.31) and Q1-2022.

Saskatchewan and British Columbia - These assets are located in Regina, SK and Kelowna, BC. Rental revenue was down $0.22 million or 11% which directly correlates to the asset sale completed on February 1, 2023.

Our same-asset NOI calculation excludes the property sold from both the current year and comparative periods and was down 6%. Excluding the property sold, rental revenue was stable in the quarter however we saw an increase in direct operating expenses of 6%.

Occupancy improved over Q1-2022 to 92%, and is down 2% from year-end (Q4-2022: 94%). Kelowna Business Centre was sold during the quarter, and had a 99% occupancy on sale. This disposition of this property reduced the overall occupancy in this region on disposition.

General & Administrative Expense

	Three months ended March 31		
($000s)	**2023**	2022	△%
Asset management fee	**474**	479	(1)
Professional fees	**112**	93	20
Public company costs	**98**	129	(24)
Other	**95**	87	9
General & administrative expense	**779**	788	(1)

General & administrative (G&A) expense was down 1% or $0.01 million in the quarter. Asset management fees are paid quarterly to Melcor to manage the REIT assets. As the REIT sold an asset in Q1-2023, this fee decreased slightly compared to 2022.

Our remaining G&A expense categories remain on budget, and fairly stable over the prior year. These expenses tend to vary quarter over quarter depending on when certain fees are incurred. Our upper target for G&A is 5% of rental revenue. In Q1-2023, G&A was 4% of revenue (Q1-2022: 4%).

Finance Costs

	Three months ended March 31		
($000s)	**2023**	2022	△%
Interest on mortgages payable and revolving credit facility	3,510	2,849	23
Interest on Class C LP Units	361	304	19
Interest on convertible debentures	587	888	(34)
Accretion on convertible debentures	117	154	(24)
Fair value adjustment on derivative instruments	676	(525)	nm
Amortization of deferred financing fees	353	351	1
Finance costs before distributions	5,604	4,021	39
Distributions on Class B LP Units	1,935	1,935	–
Finance costs	7,539	5,956	27

Finance costs before and after distributions are impacted by non cash fair value adjustments on derivative financial instruments. In the quarter, we recorded fair value losses on these derivatives of $0.68 million compared to gains of $0.53 million in Q1-2022, a swing of $1.20 million on total finance costs for the quarter. Excluding these non cash adjustments, finance costs were $6.86 million in Q1-2023 compared to $6.48 million in Q1-2022, an increase of 6% year-over-year.

Included in the fair value adjustment on derivative instruments is the mark to market on interest rate swaps adjustment related to certain floating rate mortgages as well as the revaluation of the conversion feature on our convertible debenture. The fair value is impacted by market forces, such as interest rates and unit price which are outside of managements control and are non cash items.

Interest on mortgages payable and our revolving credit facility was up $0.66 million compared to Q1-2022 due to both increased rates as well as higher borrowings. Our 2017 Debenture expired in December 2022 and was repaid using our credit facility, resulting in an increased draw of $22.98 million at the end of 2022. We used net proceeds from the Kelowna Business Centre sale to reduce borrowings on this facility. Draws on the facility are down $7.27 million since year end.

Distributions remained stable at $0.04 per unit per month, and there has been no change in the total units outstanding since year end.

Rising interest rates over the last 12-24 months impact the interest paid on our variable rate credit facility, rates on our unhedged and variable rate mortgages, and the rate at which new mortgages are being renewed.

As at March 31, 2023 the weighted average interest rate on our revolving credit facility, mortgages payable, Class C LP Units and convertible debentures was 3.99% (December 31, 2022 - 4.01%), slightly down due to the decrease in borrowings on our credit facility since year-end. We expect to see our weighted average interest rate go up during the year as mortgages come up for renewal in a higher interest rate environment and as we continue to draw on our credit facility. Increases in interest on Class C LP units directly correlates with higher interest rates on debt renewed during 2022.

Income Taxes

As at March 31, 2023, 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.

	Three months ended March 31		
($000s, except per unit amounts)	**2023**	2022	△%
Net income (loss) for the period	**3,656**	(6,538)	
Add / (deduct)			
Fair value adjustment on investment properties	**1,586**	3,662	
Fair value adjustment on Class B LP Units	**(2,903)**	7,095	
Amortization of tenant incentives	**1,058**	901	
Distributions on Class B LP Units	**1,935**	1,935	
Fair value adjustment on derivative instruments	**676**	(525)	
FFO[1]	**6,008**	6,530	(8)
Deduct			
Straight-line rent adjustments	**(174)**	(2)	
Normalized capital expenditures	**(750)**	(588)	
Normalized tenant incentives and leasing commissions	**(1,425)**	(1,029)	
AFFO[1]	**3,659**	4,911	(25)
FFO/Unit[2]	**$0.21**	$0.22	
AFFO/Unit[2]	**$0.13**	$0.17	
Weighted average number of units (000s):[3]	**29,088**	29,090	–

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.*

FFO can be calculated as well using the direct method, as outlined in the below table:

	Three months ended March 31		
($000s, except per unit amounts)	**2023**	2022	△%
Base rent	**11,986**	12,051	
Recoveries	**7,283**	7,095	
Other revenue	**605**	718	
SLR adjustment	**174**	2	
Direct operating expenses	**(8,352)**	(8,009)	
General & administrative expense	**(779)**	(788)	
Interest on mortgages payable and revolving credit facility	**(3,510)**	(2,849)	
Interest on Class C LP Units	**(361)**	(304)	
Interest on convertible debentures	**(587)**	(888)	
Accretion on convertible debentures	**(117)**	(154)	
Amortization of deferred financing fees	**(353)**	(351)	
Interest income	**19**	7	
FFO[1]	**6,008**	**6,530**	(8)

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

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

	Three months ended March 31		
($000s, except per unit amounts)	**2023**	2022	△%
FFO[1]	**6,008**	6,530	(8)
Convertible debentures interest	**587**	888	
Amortization of deferred financing fees on convertible debentures	**115**	189	
Accretion on convertible debentures	**117**	154	
FFO - Diluted[1]	**6,827**	7,761	(12)
FFO - Diluted/Unit[2]	**$0.20**	$0.21	
Diluted weighted average number of units (000s):[3]	**34,257**	36,256	(6)

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. 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 March 31, 2023**	Year ended December 31, 2022
Actual capital expenditures	**191**	3,452
Normalized capital expenditures	**750**	2,514
Variance	**(559)**	938

Actual capital expenditures were less than normalized capital expenditures by $0.56 million due to seasonal differences. As the construction season for many projects occurs spring through fall, we will often see lower than normalized amounts in the first and fourth quarters. We adjusted our normalized capital expenditures estimates at the end of 2022 as we have seen costs increase in the recent past and project higher future spend required to properly manage our assets to attract and retain tenants.

Our 2022 actual capital expenditure was $3.45 million and we have planned capital projects of $3.00 million for 2023.

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 and with higher tenant incentives carrying higher base rent (sometimes in future periods). 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 March 31, 2023**	Year ended December 31, 2022
Actual tenant incentives and direct leasing expenditures	**1,715**	8,663
Normalized tenant incentives and direct leasing expenditures	**1,425**	4,512
Variance	**290**	4,151

Tenant incentives and direct leasing costs trended ahead of normalized due to some large leases signed in early 2023. The timing and type of leasing activity and market conditions causes fluctuations in spending during the year.

Our 2022 actual tenant incentives and direct leasing expenditures was $8.66 million, and we have planned tenant incentives and direct leasing expenditures of $5.70 million for 2023.

We adjusted our estimate for normalized tenant incentives and direct leasing costs at the end of 2022 as we have seen costs increase in the recent past and project increased future spend required to attract and retain tenants. Normalized tenant incentives and direct leasing expenditures look at trailing 5 year actual spend plus 5 year projected spend, and therefore will vary period over period depending on they type and size of leases signed.

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.

	Three months ended March 31		
($000s)	**2023**	2022	△%
Cash flows from operations	**1,882**	4,293	(56)
Distributions on Class B LP Units	**1,935**	1,935	
Actual payment of tenant incentives and direct leasing costs	**1,955**	1,733	
Changes in operating assets and liabilities	**532**	(928)	
Amortization of deferred financing fees	**(353)**	351	
Normalized capital expenditures	**(750)**	(588)	
Normalized tenant incentives and leasing commissions	**(1,425)**	(1,029)	
ACFO[1]	**3,776**	5,767	(35)
ACFO/Unit[2]	**$0.13**	$0.20	
Weighted average number of units (000s)[3]	**29,088**	29,090	–

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. Monthly distributions to unitholders have been $0.04 per unit, unchanged since August 2021. Distributions paid to unitholders in Q1-2023 were $1.56 million for an ACFO payout ratio of 92% (Q1-2022: $1.56 million, ACFO payout ratio 61%).

We use ACFO in evaluating our ability to continue to fund distributions. The most similar IFRS measure is cash flow from operations. Swings in operating assets and liabilities was the largest contributing factor in the swing in ACFO and is reflective of higher tenant receivables at quarter, driven by year end recovery charges to tenants, as well as the payment of accrued lease inducements at year end.

Cash flow from operations before Class B LP Unit distributions paid less total distributions paid was $0.33 million, down from $2.74 million in Q1-2023 but still positive reflecting our ability to maintain distributions, as illustrated below.

	Three months ended March 31		
($000s)	**2023**	2022	△%
Cash flows from operations	**1,882**	4,293	(56)
Distributions paid on Class B LP Units	**1,935**	1,935	–
Cash flow from operations before Class B LP Unit Distributions	**3,817**	6,228	(39)
Distributions paid to unitholders	**(1,556)**	(1,556)	–
Distributions paid on Class B LP Units	**(1,935)**	(1,935)	–
Total distributions paid	**(3,491)**	(3,491)	–
Cash flow from operations before Class B LP Unit distributions paid less total distributions paid	**326**	2,737	(88)
Total distributions paid as a % of cash flow from operations before Class B LP Unit distributions paid	**91 %**	56 %	63

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 March 31, 2023	Year ended December 31, 2022
Number of properties	**38**	39
Total GLA (sf)	**3,276,106**	3,346,240
GLA (REIT owned %) (sf)	**3,146,006**	3,216,141
Fair value of portfolio ($000s)[1]	**699,886**	700,182
Value per square foot	**$222**	$218
NOI ($000s)	**11,522**	46,319
Weighted average capitalization rate	**7.11 %**	7.08 %
Weighted average terminal capitalization rate	**7.18 %**	7.16 %
Weighted average discount rate	**8.08 %**	8.04 %

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 with the assistance of qualified independent external valuation professionals. In Q1-2023, external valuation professionals valued one property (of 52 legal phases), with a fair value of $33.80 million.

In Q1-2023 we recognized fair value losses of $1.59 million (Q1-2022: fair value losses of $3.66 million).

On February 1, 2023 we successfully closed the sale of a 72,000 sf office property located in Kelowna BC for net proceeds of $19.50 million. This reduced our total number of properties from 39 to 38. This asset was purchased by Melcor Development in 2006 and was part of the initial vend-in on formation of Melcor REIT in 2013.

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, 2023**	Year ended December 31, 2022
Northern Alberta	**(1,567)**	(8,940)
Southern Alberta	**173**	(7,362)
Saskatchewan & British Columbia	**(192)**	4,307
	(1,586)	(11,995)

The breakdown of our fair value adjustment on investment properties by property type is as follows:

($000s)	Three months ended March 31, 2023	Year ended December 31, 2022
Retail	**(1,605)**	5,282
Office	**(35)**	(19,774)
Industrial	**57**	1,911
Land Lease Community	**(3)**	586
	(1,586)	(11,995)

Our valuation program requires the revaluation of each legal phase every two years or as market conditions dictate. Our entire portfolio was revalued in 2020, triggering an anomalous bump in properties due for revaluation in 2022. We are proactively working to schedule portfolio revaluations so that they are more evenly distributed.

To date in 2023, one retail property located in Northern Alberta was revalued resulting in a $1.50 million loss contributing to the overall $1.59 million fair value loss recorded in the quarter. We also realized fair value losses during the quarter related to tenant incentives that were capitalized to the property without a corresponding increase in property value. Straight-line rent adjustments also impact fair value in the period in which they are incurred.

In 2022, our office properties saw increases between 0.25-0.50% in capitalization rates across the board which have a negative impact on the fair value of properties. 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, 2023			December 31, 2022		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	**5.50%**	**10.00%**	**7.11%**	5.50%	10.00%	7.08%
Terminal capitalization rate	**6.00%**	**8.75%**	**7.18%**	6.00%	8.75%	7.16%
Discount rate	**6.75%**	**9.75%**	**8.08%**	6.25%	9.75%	8.04%

A capitalization rate increase of 50 basis points (+0.5%) would decrease the fair value of investment properties by $46.10 million (December 31, 2022 - $47.30 million) while a 50 basis points decrease (-0.5%) would increase fair value by $53.10 million (December 31, 2022 - $54.50 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:

	Three months ended March 31		
($000s)	2023	2022	$△
Cash from operating activities	**1,882**	4,293	(2,411)
Cash from (used in) investing activities	**18,834**	(217)	19,051
Cash used in financing activities	**(20,707)**	(3,459)	(17,248)
Increase in cash and cash equivalents	**9**	617	(608)
Cash and cash equivalents, beginning of the period	**3,304**	7,255	(3,951)
Cash and cash equivalents, end of the period	**3,313**	7,872	(4,559)

Operating activities

Cash from operating activities was down $2.41 million in the quarter. Rent collections continue to remain strong. Operating assets and liabilities fluctuate period over period and contributed $0.53 million to the overall decrease in cash from operating activities. Cash before adjustments for working capital and payments of tenant incentives and direct leasing costs was down $0.73 million in Q1-2023. This decrease correlates with the $0.52 million decrease in FFO quarter over quarter described on page 11.

Distributions paid to our Class B LP unitholders have remained stable year over year, as we have held our distribution stable at $0.04 per unit per month since mid-2021. Interest on mortgages and our revolving credit facility was up $0.66 million due in part to rising interest rates, and in part to increased borrowings on our credit facility, which has a prime based interest rate. Our 2017 Debenture matured in December 2022 and we used availability on our credit facility to repay that debt. This also resulted in a decrease in interest on our convertible debentures of $0.30 million in the quarter.

We have seen some significant costs related to tenant incentives and direct leasing costs associated with leases. Tenant incentives and direct leasing cost investments were $1.96 million in Q1-2023 (Q1-2022 - $1.73 million). We anticipate spending $5.70 million in 2023 on tenant inducements and leasing commissions. We have completed 221,777 sf of new and renewed leasing resulting in occupancy of 88% at quarter-end. The timing of lease expiries impacts the level of spending on tenant incentives and direct leasing costs and fluctuates from period to period.

Investing activities

On February 1, 2023 we closed on the sale of Kelowna BC for net proceeds of $19.03 million (including $1.00 million of restricted cash held at year end). These proceeds were used to pay off the mortgage on the property, with remaining cash of $9.03 million being used to reduce borrowings on our credit facility.

We have spent $0.19 million on our scheduled maintenance program and other projects in the quarter (Q1-2022 - $0.22 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 anticipate spending $3.00 million in 2023 on planned capital projects. Asset enhancement investments fluctuate based on the nature and timing of projects undertaken and can be seasonal in nature.

Financing activities

During Q1-2023 one financing renewal was completed with no cash impact. Our overall credit facility saw a net reduction of $7.27 million since year-end as net cash proceeds from the sale of Kelowna Business Center were applied to our facility.

We paid distributions to unitholders of $1.56 million in Q1-2023 (Q1-2022 - $1.56 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, 2023 we had $3.31 million in cash and cash equivalents in addition to $25.57 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 50% as at March 31, 2023 (56% including convertible debentures).

As at March 31, 2023, our total capitalization was $709.73 million and is comprised of:

($000s)	March 31, 2023	December 31, 2022
Revolving credit facility[1]	**24,427**	31,697
Mortgages payable[1]	**313,899**	325,193
Class C LP Units	**37,211**	37,798
Indebtedness, excluding convertible debentures	**375,537**	394,688
Convertible debentures[2]	**46,000**	46,000
Indebtedness	**421,537**	440,688
Class B LP Units at historical cost[3]	**160,207**	160,207
Trust units, excluding transaction costs	**127,989**	127,989
Equity at historical cost	**288,196**	288,196
Total capitalization	**709,733**	728,884
Gross Book Value (GBV)[4]	**755,009**	766,457
Debt to GBV, excluding convertible debentures (maximum threshold - 60%)[5]	**50 %**	51 %
Debt to GBV (maximum threshold - 65%)[5]	**56 %**	57 %

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, 2023, 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:

		Contractual balance due, by year end:					
($000s)	Total	2023	2024	2025	2026	2027	Thereafter
Revolving credit facility	**24,427**	24,427	–	–	–	–	–
Mortgages payable	**313,899**	51,526	47,223	23,198	54,065	17,775	120,112
Class C LP Units	**37,211**	26,182	463	478	10,088	–	–
Convertible debentures	**46,000**	–	46,000	–	–	–	–
Total	**421,537**	**102,135**	**93,686**	**23,676**	**64,153**	**17,775**	**120,112**
% of portfolio	100 %	24 %	22 %	6 %	15 %	4 %	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.

In 2023, we have four mortgages up for renewal with a maturing principal balance of $46.12 million at an interest rate of 4.40%. To date in 2023 we have renewed one of these mortgages at a rate of 5.69%. We also have two Class C mortgages up for renewal with a maturing principal balance of $25.47 million and a weighted average interest rate of 4.13% coming up for renewal later in the year.

The REIT continues to monitor its secured debts and proactively engage with lenders in regards to upcoming maturities.

We remain focused on ensuring that the REIT has the flexibility to enter the market if conditions become favourable to do so. Our 2017 Debentures matured in December 2022, and availability on our revolving credit facility was used to repay the outstanding balance on these units.

We have a revolving credit facility agreement with two western Canadian financial institutions. We amended this agreement on February 10, 2023 to increase our limit from $35.00 million to $50.00 million, available to use for general corporate purposes and acquisitions, including a $5.00 million swing line sub-facility. The available credit limit based on the carrying value of specific investment properties. 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.

Debt Analysis – our mortgages payable, Class C LP Units and convertible debentures bear interest at fixed rates (including four 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
Revolving credit facility	**24,427**	–	24,427	7.95 %	1.67
Mortgages payable	**313,899**	262,345	51,554	3.53 %	4.28
Class C LP Units	**37,211**	37,211	–	3.89 %	1.16
Convertible debentures	**46,000**	46,000	–	5.10 %	1.75
Total	**421,537**	**345,556**	**75,981**	**3.99 %**	**3.58**

The weighted average interest rate on our debts was 3.99% (December 31, 2022 - 4.01%).

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, 2023	Year ended December 31, 2022
FFO	**6,008**	24,725
Principal repayments on Mortgages payable	2,567	10,792
Principal repayments on Class C LP Units	587	2,362
Principal repayments	**3,154**	13,154
Debt service coverage ratio[1]	**1.90**	1.88
FFO plus finance costs	10,936	43,443
Finance costs[2]	4,928	18,718
Finance costs coverage ratio[1]	**2.22**	2.32

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 and was not renewed.

The following table summarizes the trust units issued and the potentially diluted number of units outstanding as at March 31, 2023 and December 31, 2022:

Issued and fully paid units ($000s except unit amounts)	**March 31, 2023**		December 31, 2022	
	Units	**$ Amount**	Units	$ Amount
Balance, beginning of period[1]	**12,963,169**	**127,989**	12,966,993	128,027
Issuance of trust units	**–**	**–**	–	–
Repurchase of trust units	**–**	**–**	(3,824)	(38)
Balance, end of period[1]	**12,963,169**	**127,989**	12,963,169	127,989
Potentially dilutive securities				
Class B LP Units Historical Cost[2]	**16,125,147**	**160,207**	16,125,147	160,207
Convertible debentures[3]	**5,168,542**	**46,000**	5,168,542	46,000
Potentially diluted balance, end of period	**34,256,858**	**334,196**	34,256,858	334,196

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

	2023	2022				2021		
($000s except per unit amount)	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	**18,990**	18,797	18,189	18,154	18,965	18,542	18,089	17,977
Net income (loss)[1]	**3,656**	(1,062)	19,151	18,059	(6,538)	5,301	7,470	(4,619)
NOI[4]	**11,522**	11,460	11,613	11,391	11,855	11,640	11,915	11,852
Funds from operations (FFO)[4]	**6,008**	5,781	6,306	6,108	6,530	6,371	6,639	6,570
Adjusted funds from operations (AFFO)[4]	**3,659**	3,521	4,464	4,352	4,911	4,608	4,982	4,811
Adjusted cash flows from operations (ACFO)[4]	**3,776**	3,679	4,623	4,506	5,767	7,675	5,131	4,956
Per unit metrics								
Basic earnings (loss) per unit	**$ 0.28**	$ (0.09)	$ 1.48	$ 1.39	$ (0.50)	$ 0.98	$ 0.58	$ (0.36)
FFO (basic)[5]	**$ 0.21**	$ 0.20	$ 0.22	$ 0.21	$ 0.22	$ 0.22	$ 0.23	$ 0.23
AFFO (basic)[5]	**$ 0.13**	$ 0.12	$ 0.15	$ 0.15	$ 0.17	$ 0.16	$ 0.17	$ 0.17
ACFO (basic)[5]	**$ 0.13**	$ 0.13	$ 0.16	$ 0.15	$ 0.20	$ 0.26	$ 0.18	$ 0.17
Annualized distribution rate[3]	**$ 0.480**	$ 0.480	$ 0.480	$0.480	$ 0.480	$ 0.480	$ 0.480	$ 0.420
FFO Payout Ratio[5]	**58%**	60%	55%	57%	53%	55%	50%	47%
AFFO Payout Ratio[5]	**95%**	99%	78%	80%	71%	76%	67%	64%
ACFO Payout Ratio[5]	**92%**	95%	76%	77%	61%	46%	65%	62%
Period-end closing unit price	**$5.35**	$5.53	$5.75	$6.19	$7.23	$6.79	$6.85	$6.90
Annualized distribution yield on closing unit price (%)[2]	**8.97%**	8.68%	8.35 %	7.75 %	6.64%	7.07%	7.01%	6.09%

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 AFFO 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. *Since August 2021, monthly distributions have remained at $0.04 per unit per month. Prior to August 2021, the REIT's distribution was $0.035 per unit per month from January to July 2021.*
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, 2023 in comparison to the December 31, 2022 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, 2023 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

There has been no change in the REIT's disclosure controls and procedures of internal control over financial reporting during the year ended December 31, 2022, that materially affected, or is reasonably likely to materially affect, the REIT's internal control over financial reporting.

Notwithstanding the foregoing, no assurance can be made that the REIT's controls over disclosure and financial reporting and related procedures will detect or prevent all failures of people to disclose material information otherwise required to be set forth in the REIT's reports

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 2, 2023, 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:

	Three months ended March 31		
($000s)	**2023**	2022	△%
Net income (loss) for the period	**3,656**	(6,538)	
Net finance costs	**7,520**	5,949	
Fair value adjustment on Class B LP Units	**(2,903)**	7,095	
Fair value adjustment on investment properties	**1,586**	3,662	
General and administrative expenses	**779**	788	
Amortization of operating lease incentives	**1,058**	901	
Straight-line rent adjustment	**(174)**	(2)	
NOI	**11,522**	11,855	(3)

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. 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.

	Three months ended March 31		
($000s)	**2023**	2022	△%
Net income (loss) for the period	**3,656**	(6,538)	
Fair value adjustment on Class B LP Units	**(2,903)**	7,095	
Fair value adjustment on investment properties	**1,586**	3,662	
Fair value adjustment on derivative instruments	**676**	(525)	
Income before fair value adjustment and taxes	**3,015**	3,694	(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 (TI's and SLR).