Press Release

for immediate distribution

Melcor REIT announces first quarter 2023 results

Edmonton, Alberta | May 2, 2023

Melcor REIT (TSX: MR.UN) today announced results for the first quarter ended March 31, 2023. Revenue was stable in the quarter at $18.99 million and net operating income was down 3% at $11.52 million. Occupancy currently sits at 88%, up 0.3% compared to year-end and we have retained 95% of expiring leases year-to-date.

Andrew Melton, CEO of Melcor REIT commented: "I'm pleased to report another quarter of stable results for the REIT. While our results remain stable, we have achieved some successes that will lead to further improvement in results, including occupancy improvement to 88%, retention of 95% of expiring leases and weighted average base rent growth compared both over period and sequentially.

These results demonstrate our ongoing commitment to strategic leasing efforts to improve occupancy and deliver value for our unitholders. We are also pleased to have closed on the sale of Kelowna Business Centre, generating proceeds that allowed us to pay down our credit line and achieve a favorable return on investment. As we navigate ongoing market challenges, the REIT remains focused on maintaining stable results."

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 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

Non-standard 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)	**3.79**	4.25	(11)
Weighted average base rent (per sf)	**$16.64**	$16.55	1

Per Unit Metrics:

	Three months ended March 31		
	2023	2022	△%
Per Unit Metrics			
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.*

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 page 11 for calculation of Equity at historical cost.*
2. *Calculated as the sum of total amount drawn on revolving credit facility, mortgages payable, Class C LP Units and convertible debentures, excluding unamortized discount and transaction costs. Please refer to page 11 for calculation of Indebtedness.*
3. *Debt to GBV is a Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.*
4. *Non-GAAP financial ratio. Calculated as the sum of FFO and finance costs; divided by finance costs, excluding distributions on Class B LP Units and fair value adjustment on derivative instruments. This metric is not calculated for purposes of covenant compliance on any of our debt facilities. Please refer to Non-GAAP and Non-Standard Measures section for further information.*
5. *Non-GAAP financial ratio. Calculated as FFO; divided by sum of contractual principal repayments on mortgages payable and distributions of Class C LP Units, excluding amortization of fair value adjustment on Class C LP Units. This metric is not calculated for purposes of covenant compliance on any of our debt facilities. Please refer to Non-GAAP and Non-Standard Measures section for further information.*

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 Q1-2023 quarterly report to unitholders. The REIT's consolidated financial statements and management's discussion and analysis for the three-months ended March 31, 2023 can be found on the REIT's website at www.MelcorREIT.ca or on SEDAR (www.sedar.com).

Conference Call & Webcast
Unitholders and interested parties are invited to join management on a conference call to be held May 3, 2023 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/12425. A replay of the call will be available at the same URL shortly after the call is concluded.

About Melcor REIT
Melcor REIT is an unincorporated, open-ended real estate investment trust. Melcor REIT owns, acquires, manages and leases quality retail, office and industrial income-generating properties in western Canadian markets. Its portfolio is currently made up of interests in 38 properties representing approximately 3.15 million square feet of gross leasable area located across Alberta and in Regina, Saskatchewan; and Kelowna, British Columbia. For more information, please visit www.MelcorREIT.ca.

Non-GAAP and Non-standard Measures
NOI, FFO, AFFO and ACFO are key measures of performance used by real estate operating companies; however, they are not defined by International Financial Reporting Standards (IFRS), do not have standard meanings and may not be comparable with other industries or income trusts. These non-IFRS measures are defined and discussed in the REIT's MD&A for the quarter ended March 31, 2023, which is available on SEDAR at 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.

	Three months ended March 31		
($000s)	**2022**	2021	△%
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 (TIs and SLR).

NOI Reconciliation:

	Three months ended March 31		
($000s)	**2022**	2021	△%
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)

Same-asset Reconciliation:

	Three months ended March 31		
($000s)	**2023**	2022	△%
Same-asset NOI	**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)

FFO & AFFO Reconciliation:

	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	**3,659**	4,911	(25)
FFO/Unit	**$0.21**	$0.22	
AFFO/Unit	**$0.13**	$0.17	
Weighted average number of units (000s):[1]	**29,088**	29,090	–

1. *For the purposes of calculating per unit FFO and AFFO, the basic weighted average number of units includes Trust Units and Class B LP Units.*

ACFO Reconciliation:

	Three months ended March 31		
($000s, except per unit amounts)	**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	**3,776**	5,767	(35)
ACFO/Unit	**$0.13**	$0.20	
Weighted average number of units (000s)[1]	**29,088**	29,090	–

1. *The diluted weighted average number of units includes Trust Units, Class B LP Units and convertible debentures.*

Forward-looking Statements:

This press release may contain forward-looking information within the meaning of applicable securities legislation, which reflects the REIT's current expectations regarding future events. Forward-looking information is based on a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond the REIT's control, that could cause actual results and events to differ materially from those that are disclosed in or implied by such forward-looking information. Such risks and uncertainties include, but are not limited to, general and local economic and business conditions; the financial condition of tenants; the REIT's ability to refinance maturing debt; leasing risks, including those associated with the ability to lease vacant space; and interest rate fluctuations. The REIT's objectives and forward-looking statements are based on certain assumptions, including that the general economy remains stable, interest rates remain stable, conditions within the real estate market remain consistent, competition for acquisitions remains consistent with the current climate and that the capital markets continue to provide ready access to equity and/or debt. All forward-looking information in this press release speaks as of the date of this press release. The REIT does not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise. Additional information about these assumptions and risks and uncertainties is contained in the REIT's filings with securities regulators.

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