

Management's Discussion & Analysis

July 26, 2022

The following Management's Discussion and Analysis (MD&A) of Melcor Real Estate Investment Trust's (the REIT) results should be read in conjunction with the unaudited condensed interim consolidated financial statements and related notes for the quarter ended June 30, 2022 and the MD&A and consolidated financial statements and related notes for the year ended December 31, 2021. The discussion outlines strategies and provides analysis of our financial performance for the second quarter of 2022.

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

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

The REIT's Board of Trustees, on the recommendation of the Audit Committee, approved the content of this MD&A on July 26, 2022. Disclosure contained in this MD&A is current to July 26, 2022, unless otherwise indicated.

Regulatory Filings

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

Non-GAAP and Non-standard Measures

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

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

Forward-looking Statements

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

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

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

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

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

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Our Business

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

As at July 26, 2022, Melcor, through an affiliate, holds an approximate 55.4% effective interest in the REIT through ownership of all Class B LP Units of the Partnership and is the ultimate controlling party.

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

Acquire

We are pleased by renewed market stability and improved business conditions. We continue to review opportunities that align with our growth strategy as conditions allow. Unit price recovery remains a critical factor in our growth strategy. We are pleased with the significant recovery of our unit price in 2021 compared to 2020, and have seen more stability in the equity markets year to date. We will continue to focus on strategies to build value within our portfolio in 2022.

Improve

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

Property Management:

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

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

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

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 was a healthy 86% in Q2-2022.

Asset Enhancement:

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

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

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

Glossary of Acronyms

Acronyms used throughout our MD&A are defined here.

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

Please refer to Non-GAAP and Non-Standard Measures on page 15 for further information and reconciliation to GAAP measures where applicable.

Highlights & KPI's

Readers are reminded that established key performance measures may not have standardized meaning under GAAP. For further information on the REIT's non-standard measures, non-GAAP measures, operating measures and non-GAAP ratios, refer to the Non-GAAP and Non-Standard Measures section of the MD&A.

(\$000's)	Three months ended June 30			Six months ended June 30		
	2022	2021	△%	2022	2021	△%
Non-standard KPIs						
NOI ¹	11,391	11,582	(2)	23,246	24,209	(4)
Same-asset NOI ¹	11,391	11,582	(2)	23,246	24,209	(4)
FFO ¹	6,108	6,570	(7)	12,638	13,671	(8)
AFFO ¹	4,352	4,811	(10)	9,263	10,415	(11)
ACFO ¹	4,506	4,956	(9)	9,571	10,705	(11)
Rental revenue	18,154	17,977	1	37,119	37,463	(1)
Income before fair value adjustments ¹	3,267	3,941	(17)	6,961	8,434	(17)
Fair value adjustment on investment properties ²	(5,540)	531	nm	(9,202)	130	nm
Cash flows from operations	2,430	1,999	22	6,723	7,792	(14)
Distributions to unitholders	1,556	1,362	14	3,112	2,731	14
Distributions ³	\$0.12	\$0.11	9	\$0.24	\$0.21	14

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

	June 30, 2022	December 31, 2021	△%
Total assets (\$000s)	730,290	735,668	(1)
Equity at historical cost (\$000s) ¹	288,196	288,234	—
Indebtedness (\$000s) ²	441,396	446,769	(1)
Weighted average interest rate on debt	3.71 %	3.62 %	2
Debt to GBV, excluding convertible debentures (maximum threshold - 60%) ³	49 %	49 %	—
Debt to GBV (maximum threshold - 65%) ³	58 %	58 %	—
Finance costs coverage ratio ⁴	2.38	2.45	(3)
Debt service coverage ratio ⁵	1.68	2.06	(18)

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

5. Non-GAAP financial ratio. Calculated as FFO; divided by sum of contractual principal repayments on mortgages payable and distributions of Class C LP Units, excluding amortization of fair value adjustment on Class C LP Units. This metric is not calculated for purposes of covenant compliance on any of our debt facilities. Please refer to Non-GAAP and Non-Standard Measures section for further information.

	Three months ended June 30			Six months ended June 30		
	2022	2021	△%	2022	2021	△%
Per Unit Metrics						
Net income (loss)						
Basic	\$1.39	(\$0.36)		\$0.89	(\$2.23)	
Diluted	\$0.11	(\$0.36)		\$0.20	(\$2.23)	
Weighted average number of units for net income (loss) (000s): ¹						
Basic	12,963	12,975	—	12,964	13,010	—
Diluted	29,088	12,975	124	29,089	13,010	124
FFO						
Basic ²	\$0.21	\$0.23		\$0.43	\$0.47	
Diluted ²	\$0.20	\$0.21		\$0.42	\$0.44	
Payout ratio ²	57 %	47 %		55 %	45 %	
AFFO						
Basic ²	\$0.15	\$0.17		\$0.32	\$0.36	
Payout ratio ²	80 %	64 %		75 %	59 %	
ACFO						
Basic ²	\$0.15	\$0.17		\$0.33	\$0.37	
Payout ratio ²	77 %	62 %		73 %	57 %	
Weighted average number of units for FFO, AFFO and ACFO (000s): ³						
Basic	29,088	29,100	—	29,089	29,135	—
Diluted	36,255	36,268	—	36,255	36,304	—

1. For the purposes of calculating per unit net income the basic weighted average number of units includes Trust Units and the diluted weighted average number of units includes Class B LP Units and convertible debentures, to the extent that their impact is dilutive.
2. Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.
3. For the purposes of calculating per unit FFO, AFFO and ACFO the basic weighted average number of units includes Trust Units and Class B LP Units.

Operational Highlights	June 30, 2022	December 31, 2021	△%
Number of properties	39	39	—
GLA (sf)	3,216,141	3,216,175	—
Occupancy (weighted by GLA)	86.6 %	87.1 %	(1)
Retention (weighted by GLA)	85.5 %	81.7 %	5
Weighted average remaining lease term (years)	3.81	3.86	(1)
Weighted average base rent (per sf)	\$16.58	\$16.73	(1)

HIGHLIGHTS:

Our portfolio performance remained stable in the second quarter and year-to-date. In the quarter, both NOI and net rental income were down 2% due to the timing of operating expenses, which vary period over period. Year-to-date NOI and net rental income were down 4% due to \$1.0 million in early termination fees paid in Q1-2021. Excluding these payments, year-to-date NOI was stable and net rental income was up 1%.

We continue to proactively renew existing tenants which has resulted in a strong retention rate of 86% year-to-date. We are actively pursuing new tenant opportunities and have commenced 53,444 sf in new leases. Occupancy remained stable over the first quarter and year-end at 87% (Q1-2022 - 87%, Q4-2021 - 87%). On average, WABR has decreased slightly from year-end, down 1%, due to ongoing challenges within the office class. Following the lifting of work-from-home orders, demand for office space continues to fluctuate while supply increases. WABR on our retail properties increased 1% over Q1-2022.

The factors that contributed most significantly to results in 2022 compared to 2021 are as follows:

- **Early Termination event:** In Q1-2021, we received \$1.00 million for the early lease termination of a fast food chain which was included in other revenue, and impacts year-to-date comparative results.
- **Non-cash fair value adjustments:** Non-cash fair value adjustments on Class B LP Units and investment properties often cause dramatic swings in results. Class B Units are valued at market value, thus a change in unit price has a counter-intuitive impact on net income, as an increase in unit value decreases net income. These revaluations have had a material impact to net income in both the current and prior periods, making comparison less meaningful. Management considers FFO and ACFO better measures of our performance as these non-cash items are removed from those metrics.
- **Distribution Increase:** Our monthly distribution increased by 14% to \$0.04 per unit compared to Q2-2021.

FINANCIAL HIGHLIGHTS

Financial highlights of our performance in the second quarter and year-to-date include:

- Revenue was up 1% at \$18.15 million in Q2-2022 and down 1% at \$37.12 million year-to-date. Excluding the Early Termination event, year-to-date revenue was up 2%.
- NOI was down 2% at \$23.25 million in Q2-2022 due to the timing of operating expenses. NOI was down 4% year-to-date. Excluding the Early Termination event, year-to-date NOI was stable.
- FFO was down 7% to \$6.11 million or \$0.21 per unit in the quarter (Q2-2021: \$6.57 million or \$0.23 per unit). Year-to-date, FFO was down 8% to \$12.64 million or \$0.43 per unit (2021: \$13.67 million or \$0.47 per unit). Excluding the Early Termination event, year-to-date FFO was stable. Management believes FFO best reflects our true operating performance.
- ACFO was down 9% at \$4.51 million or \$0.15 per unit in Q2-2022 (Q2-2021: \$4.96 million or \$0.17 per unit). Year-to-date ACFO is down 11% at \$9.57 million (2021: \$10.71 million). Excluding the Early Termination event, year-to-date ACFO was down 1%. Management believes that ACFO best reflects our cash flow and therefore our ability to pay distributions. The second quarter payout ratio was 77% based on ACFO, and 73% year-to-date (Q2-2021 - 62% and year-to-date 2021 - 57%).

- 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.
- Year-to-date we have completed financing renewals on 3 properties, for net proceeds of \$1.44 million.
- As at June 30, 2022 we had \$4.55 million in cash and \$32.00 million in undrawn liquidity under our revolving credit facility.

OPERATING HIGHLIGHTS

We are pleased with the volume of new leasing activity across our portfolio. We signed 273,154 sf of new and renewed leasing (including holdovers) and retained 86% of expiring leases year-to-date. Future leasing is promising, with commitment on an additional 110,966 sf of future renewals and 78,549 sf in new deals.

DISTRIBUTIONS

Our monthly distributions remained stable over year-end at \$0.04 and increased 14% over Q2-2021. The quarterly payout ratio was 77% based on ACFO and 57% based on FFO (Q2-2021: distribution of \$0.035 per month; 62% ACFO and 47% FFO). Year-to-date the payout ratio was 73% based on ACFO and 55% based on FFO (2021: distributions of \$0.035 per month; 57% based on ACFO and 45% based on FFO)

SUBSEQUENT EVENT

Subsequent to the quarter, we declared the following distribution:

Month	Record Date	Distribution Date	Distribution Amount
July 2022	July 29, 2022	August 15, 2022	\$0.04 per Unit

Consolidated Revenue & Net Operating Income

(\$000s)	Three months ended June 30			Six months ended June 30		
	2022	2021	△%	2022	2021	△%
Base rent	11,994	12,025	–	24,045	24,041	–
Recoveries	6,397	6,173	4	13,492	13,023	4
Other	530	573	(8)	1,248	2,228	(44)
Amortization of tenant incentives	(906)	(936)	(3)	(1,807)	(1,851)	(2)
SLR adjustment	139	142	(2)	141	22	541
Rental revenue	18,154	17,977	1	37,119	37,463	(1)
Operating expenses	3,707	3,413	9	7,336	6,995	5
Utilities and property taxes	3,823	3,776	1	8,203	8,088	1
Direct operating expenses	7,530	7,189	5	15,539	15,083	3
Net rental income	10,624	10,788	(2)	21,580	22,380	(4)
NOI¹	11,391	11,582	(2)	23,246	24,209	(4)
Same asset NOI¹	11,391	11,582	(2)	23,246	24,209	(4)
Operating margin²	59%	60%	(2)	58%	60%	(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 was up 1% compared to Q2-2021 and down 1% year-to-date. Excluding the Early Termination event, revenue was up 2% year-to-date. Swings in SLR partially offset the higher other revenue in the comparative period.

Recoveries are amounts recovered from tenants for direct operating expenses and include a nominal administrative charge. We typically expect recovery revenue to correlate with changes in recoverable operating expenses. In the quarter, recovery revenue was up 4% and direct operating expenses were up 5%. Year-to-date, recovery revenue was up 4% and direct operating expenses were up 3%. Our recovery ratio can vary quarter over quarter due to variability of expenditures within our portfolio, and the timing in which expenses are 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 fees and other miscellaneous revenue that is ancillary to our business and fluctuates from period to period. Year-to-date other revenue was significantly impacted by \$1.00 million fee for the Early Termination event received in Q1-2021.

Amortization of tenant incentives can fluctuate based on the timing of lease rollovers and leasing incentives. SLR adjustments relate to new leases which have escalating rent rates and/or rent-free periods. SLR fluctuates due to the timing of signed leases and the rent-steps under individual leases.

Direct operating expenses

Property taxes and utilities were up 1% in the quarter and year-to-date. Utility costs, including heating costs, fluctuate year over year depending on weather conditions in the regions where our assets are located. Property tax increases were the result of increased assessments over the prior year.

Operating expenses were up in both the quarter and year-to-date consistent with higher recovery revenue and rising utility costs, including power and gas/heat.

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.

NOI and same-asset NOI are the same for both the three and six months ended June 30, 2022 as no transactions were completed within the trailing 24 months. NOI was down 2% in Q2-2022 compared to Q2-2021, and down 4% year-to-date. Excluding the Early Termination event, year-to-date NOI was stable.

The calculation of same-asset NOI is as follows:

(\$000s)	Three months ended June 30			Six months ended June 30		
	2022	2021	△%	2022	2021	△%
Same-asset NOI ¹	11,391	11,582	(2)%	23,246	24,209	(4)%
NOI ¹	11,391	11,582	(2)%	23,246	24,209	(4)%
Amortization of tenant incentives	(906)	(936)		(1,807)	(1,851)	
SLR adjustment	139	142		141	22	
Net rental income	10,624	10,788	(2)%	21,580	22,380	(4)%

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

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

	Square feet	Weighted average base rent (per sf)	Occupancy %
Opening occupancy	2,800,231	\$16.73	87.1 %
Expiring leases	(256,829)	\$13.32	
Other terminations	(13,329)	\$16.76	
Renewals/holdovers	219,710	\$13.36	
New leasing	53,444	\$10.72	
Lease amendments	(18,488)	\$–	
Closing occupancy	2,784,739	\$16.58	86.6 %

To date in 2022, we have signed 273,154 sf of new and renewed leasing (including holdovers). In 2022, 10% of our portfolio (308,989 sf) is up for renewal, including month-to-month tenants.

As at June 30, 2022, we have retained 86% (219,710 sf) of expiring leases and have received commitment on an additional 78,549 sf of future renewals. Pockets of opportunity exist across our portfolio and in all asset classes.

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

	Jun 30, 2022	Jun 30, 2021	△%	Dec 31, 2021	△%
Weighted average base rent (per sf)	\$16.58	\$16.61	–	\$16.73	(1)
Weighted average remaining lease term	3.81	3.95	(4)	3.86	(1)
GLA	3,216,141	3,216,086	–	3,216,175	–
Occupancy %	86.6 %	87.4 %	(1)	87.1 %	(1)
Retention %	85.5 %	77.1 %	11	81.7 %	5

Year-to-date, occupancy was down slightly at 86.6%. WABR was also down slightly at \$16.58 (Q4-2021: 87.1% and \$16.73). Rates across asset classes on new leasing and renewals/holdovers are impacted by tenant incentives and lease structures and can vary significantly from period to period.

Property Analysis

At June 30, 2022 our portfolio included interests in 39 retail, office and industrial income-producing properties located in western Canada for a total of 3,216,141 sf of GLA, and a land lease community.

The following table summarizes the composition of our properties at June 30, 2022 by property type:

Property Type	Count	GLA (sf)/ Lots	% of Portfolio (GLA)	Fair Value of Investment Properties ¹	Net Rental Income	% of Net Rental Income
Retail	14	1,396,482	43.4 %	408,827	12,742	59.0 %
Office	21	1,611,568	50.1 %	255,453	6,919	32.1 %
Industrial	3	208,091	6.5 %	38,496	1,405	6.5 %
Land Lease Community	1	308 lots	n/a	16,200	514	2.4 %
	39	3,216,141	100.0 %	718,976	21,580	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 and six months ended June 30, 2022:

	Retail		Office		Industrial		Land Lease Community	
	2022	2021	2022	2021	2022	2021	2022	2021
Three months ended June 30 (\$000s)								
Rental revenue	9,381	9,148	7,493	7,583	931	904	349	342
Net rental income	6,344	6,033	3,309	3,798	711	709	260	248
Same-asset NOI ¹	6,429	6,042	3,915	4,514	787	778	260	248
Six months ended June 30 (\$000s)								
Rental revenue	19,044	19,369	15,546	15,599	1,838	1,811	691	684
Net rental income	12,742	12,971	6,919	7,513	1,405	1,396	514	500
Same-asset NOI ¹	12,930	13,231	8,233	8,964	1,569	1,514	514	500
As at June 30								
WABR (sf)	\$20.08	\$19.91	\$13.15	\$13.58	\$14.92	\$14.73	n/a	n/a
Occupancy	93.2 %	91.4 %	79.2 %	82.2 %	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 3% and NOI was up 6% in the quarter due to higher occupancy and WABR compared to Q2-2021. Year-to-date, rental revenue and NOI were down 2% due to the impact of the Early Termination event resulting in increased other revenue in early 2021. Excluding the Early Termination event, rental revenue was up 4% and NOI was up 6% year-to-date. Recovery revenue is up 5% year-to-date due to the timing of expenses, prior year adjustments and improved occupancy. Straight line rent varies period to period, and was up \$0.13 million year-to-date compared to 2021 which positively impacted both rental revenue and NOI. Occupancy was up 2% and retail tenant retention is strong at 94% year-to-date.

Office – our 21 office properties include low and medium-rise buildings located in strategic urban and suburban centres. Our office portfolio is our most geographically diverse asset class, with properties across Alberta, in Regina, SK and Kelowna, BC. Year-to-date net rental revenue was down 8% at \$6.92 million with both WABR and occupancy down over the prior year. Retention for office tenants is 70% year-to-date. We're optimistic that the lifting of pandemic-related work from home orders will have a positive impact on future office leasing. We have commenced 23,227 sf in new office leases year-to-date and have 61,880 sf in new deals committed for future occupancy. NOI was down 13% in the quarter due to 1% decreases in both occupancy and WABR.

Industrial – our 3 industrial properties include single- and multi-tenant buildings. These assets remain fully occupied to date. Revenue and NOI from industrial properties are up slightly for both the quarter and year-to-date due to a slight increase in base rents and recovery revenue. WABR was up \$0.19 due to rent step-ups on current leases.

Land Lease Community – we have one land lease community in Calgary, AB, consisting of 308 pad lots. It remains 100% occupied at June 30, 2022. Our land lease community continues to provide stable rental revenue and NOI.

Regional Analysis

The following table summarizes the composition of our properties at June 30, 2022 by geographic region:

Region	Count	GLA (sf)	% of Portfolio (GLA)	Fair Value	Net	% of
				of Investment Properties ¹	Rental Income	Net Rental Income
Northern AB	22	1,958,858	60.9 %	432,054	12,207	56.6 %
Southern AB	10	887,799	27.6 %	221,375	7,405	34.3 %
Saskatchewan & BC	7	369,484	11.5 %	65,547	1,968	9.1 %
	39	3,216,141	100.0 %	718,976	21,580	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 and six months ended June 30, 2022:

	Northern AB		Southern AB		Saskatchewan & BC	
	2022	2021	2022	2021	2022	2021
Three months ended June 30 (\$000s)						
Rental revenue	10,722	10,521	5,589	5,658	1,843	1,798
Net rental income	6,039	6,102	3,579	3,722	1,006	964
Same-asset NOI ¹	6,524	6,612	3,765	3,878	1,101	1,092
Six months ended June 30 (\$000s)						
Rental revenue	21,952	22,307	11,378	11,457	3,789	3,699
Net rental income	12,207	12,897	7,405	7,508	1,968	1,975
Same-asset NOI ¹	13,252	14,091	7,819	7,901	2,174	2,217
As at June 30						
WABR (sf)	\$16.96	\$17.00	\$17.30	\$17.27	\$13.16	\$13.19
Occupancy	84.6 %	84.2 %	92.6 %	92.3 %	90.1 %	92.3 %

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

Northern Alberta - our Northern Alberta assets are located throughout the greater Edmonton area, including Leduc and Spruce Grove, and in Red Deer and Grande Prairie. Rental revenue for the region was up 2% in the quarter due to a slight improvement in occupancy, and down 2% year-to-date due to the Early Termination event. Excluding the Early Termination event, rental revenue was up 3% year-to-date. Net rental income and NOI were down 1% in the quarter due to higher operating expenses which were not fully recovered through recovery revenue. We have 72,643 sf in new deals committed for the region.

Southern Alberta - our Southern Alberta assets are located throughout the greater Calgary area, including Chestermere and Airdrie, and in Lethbridge. Rental revenue and NOI remained relatively stable in the quarter and year-to-date. Occupancy and WABR were up slightly over Q2-2021.

Saskatchewan and British Columbia - our Saskatchewan and British Columbia assets are located in Regina, SK and Kelowna, BC. Rental revenue was up 2% and NOI was down 2% year-to-date due to an increase in direct operating expenses that slightly outweighed the increase in revenue. In the quarter, rental revenue

and NOI were up 3% and 1% respectively. We have 4,600 sf in new deals committed for the region which will improve occupancy to 91% when in place.

General & Administrative Expense

(\$000s)	Three months ended June 30			Six months ended June 30		
	2022	2021	△%	2022	2021	△%
Asset management fee	479	479	–	958	958	–
Professional fees	146	93	57	239	202	18
Public company costs	70	43	63	199	178	12
Other	115	80	44	202	160	26
General & administrative expense	810	695	17	1,598	1,498	7

General & administrative (G&A) expense was up 7% or \$0.1 million year-to-date due primarily to increased professional fees in 2022 which included our 3rd party appraisals done on 17 properties and other professional tax and legal work done in the quarter. Professional fees include audit, appraisal and legal fees. We are committed to prudent financial stewardship and carefully monitor discretionary G&A expenses to ensure maximum value to our unitholders. We target G&A to be approximately 5% of rental revenue.

Finance Costs

(\$000s)	Three months ended June 30			Six months ended June 30		
	2022	2021	△%	2022	2021	△%
Interest on mortgages payable and revolving credit facility	2,960	2,708	9	5,809	5,523	5
Interest on Class C LP Units	327	429	(24)	631	878	(28)
Interest on convertible debentures	888	889	–	1,776	1,777	–
Accretion on convertible debentures	154	145	6	308	290	6
Fair value adjustment on derivative instruments	(3,562)	2,479	nm	(4,087)	4,242	nm
Amortization of deferred financing fees	291	294	(1)	642	607	6
Finance costs before distributions	1,058	6,944	(85)	5,079	13,317	(62)
Distributions on Class B LP Units	1,935	1,693	14	3,870	3,386	14
Finance costs	2,993	8,637	(65)	8,949	16,703	(46)

Finance costs before distributions were down \$5.89 million or 85% in Q2-2022 and down \$8.24 million or 62% year-to-date as a result of fluctuations in fair value adjustments on our derivative instruments. Excluding these amounts, finance costs were up 3% in the quarter and 1% year-to-date. Distributions on Class B LP Units were up 14% for both the quarter and year-to-date consistent with our increase in distributions.

Interest on mortgages payable and our revolving credit facility was up 9% over Q2-2021 and 5% year-to-date. To date in 2022,

we have seen higher interest rates on our mortgages coming up for renewal, and expect this trend to continue and affect our mortgages as they come up for renewal. Lower interest on Class C LP units was due to repayments made in the past twelve months, which reduced the outstanding balance.

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

As at June 30, 2022 the weighted average interest rate on our revolving credit facility, mortgages payable, Class C LP Units and convertible debentures was 3.71% (December 31, 2021 - 3.62%).

Income Taxes

As at June 30, 2022, the REIT qualifies as a mutual fund trust within the meaning of the Income Tax Act (Canada) and as a real estate investment trust eligible for the 'REIT Exception' under the Specified Investment Flow-Through (SIFT) rules; accordingly, no current or deferred income tax expense has been recognized on income earned or capital gains recognized subsequent to the formation of the REIT.

FFO, AFFO & ACFO

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

FFO & AFFO

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

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

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

(\$000s, except per unit amounts)	Three months ended June 30			Six months ended June 30		
	2022	2021	△%	2022	2021	△%
Net income (loss) for the period	18,059	(4,619)		11,521	(29,058)	
Add / (deduct)						
Fair value adjustment on investment properties	5,540	(531)		9,202	(130)	
Fair value adjustment on Class B LP Units	(16,770)	6,612		(9,675)	33,380	
Amortization of tenant incentives	906	936		1,807	1,851	
Distributions on Class B LP Units	1,935	1,693		3,870	3,386	
Fair value adjustment on derivative instruments	(3,562)	2,479		(4,087)	4,242	
FFO¹	6,108	6,570	(7)	12,638	13,671	(8)
Deduct						
Straight-line rent adjustments	(139)	(142)		(141)	(22)	
Normalized capital expenditures	(588)	(587)		(1,176)	(1,174)	
Normalized tenant incentives and leasing commissions	(1,029)	(1,030)		(2,058)	(2,060)	
AFFO¹	4,352	4,811	(10)	9,263	10,415	(11)
FFO/Unit²	\$0.21	\$0.23		\$0.43	\$0.47	
AFFO/Unit²	\$0.15	\$0.17		\$0.32	\$0.36	
Weighted average number of units (000s): ³	29,088	29,100	–	29,089	29,135	–

1. Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.
2. Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.
3. For the purposes of calculating per unit FFO and AFFO, the basic weighted average number of units includes Trust Units and Class B LP Units.

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

(\$000s, except per unit amounts)	Three months ended June 30			Six months ended June 30		
	2022	2021	△%	2022	2021	△%
FFO¹	6,108	6,570	(7)	12,638	13,671	(8)
Convertible debentures interest	888	889		1,776	1,777	
Amortization of deferred financing fees on convertible debentures	189	177		378	354	
Accretion on convertible debentures	154	145		308	290	
FFO - Diluted¹	7,339	7,781	(6)	15,100	16,092	(6)
FFO - Diluted/Unit²	\$0.20	\$0.21		\$0.42	\$0.44	
Diluted weighted average number of units (000s): ³	36,255	36,268	–	36,255	36,304	–

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

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

Capital Expenditures

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

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

The following summarizes our actual expenditures compared to normalized amounts:

(\$000s)	Six months ended June 30, 2022	Year ended December 31, 2021
Investment in property improvements	917	2,322
Actual capital expenditures	917	2,322
Normalized capital expenditures	1,176	2,352
Variance	(259)	(30)

Actual capital expenditures were less than normalized capital expenditures by \$0.26 million year-to-date due to the type and timing of projects undertaken. Our 2021 actual capital expenditure was \$2.32 million and we have planned capital projects of \$3.49 million for 2022.

Tenant Incentive & Direct Leasing Expenditures

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

The following summarizes our actual expenditures compared to normalized amounts:

(\$000s)	Six months ended June 30, 2022	Year ended December 31, 2021
Actual tenant incentives and direct leasing expenditures	6,091	6,246
Normalized tenant incentives and direct leasing expenditures	2,058	4,116
Variance	4,033	2,130

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

ACFO

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

(\$000s)	Three months ended June 30			Six months ended June 30		
	2022	2021	Δ%	2022	2021	Δ%
Cash flows from operations	2,430	1,999	22	6,723	7,792	(14)
Distributions on Class B LP Units	1,935	1,693		3,870	3,386	
Actual payment of tenant incentives and direct leasing costs	2,188	1,646		3,921	3,392	
Changes in operating assets and liabilities	(139)	1,529		(1,067)	(24)	
Amortization of deferred financing fees	(291)	(294)		(642)	(607)	
Normalized capital expenditures	(588)	(587)		(1,176)	(1,174)	
Normalized tenant incentives and leasing commissions	(1,029)	(1,030)		(2,058)	(2,060)	
ACFO¹	4,506	4,956	(9)	9,571	10,705	(11)
ACFO/Unit²	\$ 0.15	\$ 0.17		\$0.33	\$0.37	
Weighted average number of units (000s) ³	29,088	29,100	—	29,089	29,135	—

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

In order to continue to qualify for the 'REIT Exception' as provided under the SIFT rules, we must allocate substantially all taxable income. As such, we allocate monthly distributions to unitholders as determined and approved by the Board of Trustees. Year-to-date monthly distributions to unitholders have been \$0.04 per

unit, unchanged since August 2021 and an increase of 14% over Q2-2021. From January to July 2021, distributions were \$0.035 per unit. Distributions to unitholders in Q2-2022 were \$1.56 million for an ACFO payout ratio of 77% (Q2-2021 - \$1.36 million, ACFO payout ratio 62%). Year-to-date, distributions to unitholders were \$3.11 million for an ACFO payout ratio of 73% (2021 - \$2.73 million, ACFO payout ratio 57%)

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

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

(\$000s)	Three months ended June 30			Six months ended June 30		
	2022	2021	△%	2022	2021	△%
Cash flows from operations	2,430	1,999	22	6,723	7,792	(14)
Distributions on Class B LP Units	1,935	1,693	14	3,870	3,386	14
Cash flow from operations before Class B LP Unit Distributions	4,365	3,692	18	10,593	11,178	(5)
Distributions to unitholders	(1,556)	(1,362)	14	(3,112)	(2,731)	14
Distributions on Class B LP Units	(1,935)	(1,693)	14	(3,870)	(3,386)	14
Total distributions	(3,491)	(3,055)	14	(6,982)	(6,117)	14
Cash flow from operations before Class B LP Unit distributions less total distributions	874	637	37	3,611	5,061	(29)
Total distributions as a % of cash flow from operations before Class B LP Unit distributions	80 %	83 %	(4)	66 %	55 %	20

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:

	Six months ended June 30, 2022	Year ended December 31, 2021
Number of properties	39	39
Total GLA (sf)	3,346,240	3,346,274
GLA (REIT owned %) (sf)	3,216,141	3,216,175
Fair value of portfolio (\$000s) ¹	718,976	723,729
Value per square foot	\$224	\$225
NOI (\$000s)	23,246	47,764
Weighted average capitalization rate	6.83 %	6.81 %
Weighted average terminal capitalization rate	6.91 %	6.90 %
Weighted average discount rate	7.85 %	7.86 %

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

Melcor's internal valuation team performed the valuation assessment year to-date, and 17 properties (of 53 legal phases) with a fair value of \$198.00 million were valued by qualified independent external valuation professionals.

Valuations performed during the year have resulted in fair value losses of \$9.20 million. In Q2-2022 we recognized fair value losses of \$5.54 million. Valuations performed during the year ended December 31, 2021 resulted in fair value gains of \$2.88 million.

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

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

(\$000s)	Six months ended June 30, 2022	Year ended December 31, 2021
Northern Alberta	(4,096)	1,273
Southern Alberta	(5,493)	2,089
Saskatchewan & British Columbia	387	(483)
	(9,202)	2,879

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

To date in 2022, we have had 17 properties revalued contributing to the \$9.20 million fair value loss recorded in the quarter. As a result, our office properties portfolio decreased in value by 3% compared to Q1-2022. Overall, our office properties saw a slight increase in capitalization rates in the quarter (up 0.25-0.50%). The retail market saw the opposite this quarter, with decreased capitalization rates and increased NOI pushing fair values up on these assets. Overall our retail properties fair value increased 1% compared to Q1-2022.

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.

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.

	June 30, 2022			December 31, 2021		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	5.50%	10.00%	6.83%	5.50%	10.00%	6.81%
Terminal capitalization rate	5.75%	8.50%	6.91%	5.75%	9.00%	6.90%
Discount rate	6.25%	9.50%	7.85%	6.25%	9.75%	7.86%

A capitalization rate increase of 50 basis points (+0.5%) would decrease the fair value of investment properties by \$49.20 million (December 31, 2021 - \$49.70 million) while a 50 basis points decrease (-0.5%) would increase it by \$57.00 million (December 31, 2021 - \$57.50 million).

Liquidity & Capital Resources

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

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

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

Cash Flows

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

(\$000s)	Three months ended June 30			Six months ended June 30		
	2022	2021	r%	2022	2021	r%
Cash from operating activities	2,430	1,999	431	6,723	7,792	(1,069)
Cash used in investing activities	(700)	(987)	287	(917)	(1,166)	249
Cash used in financing activities	(5,051)	(823)	(4,228)	(8,510)	(5,718)	(2,792)
Increase (decrease) in cash and cash equivalents	(3,321)	189	(3,510)	(2,704)	908	(3,612)
Cash and cash equivalents, beginning of the period	7,872	4,463	3,409	7,255	3,744	3,511
Cash and cash equivalents, end of the period	4,551	4,652	(101)	4,551	4,652	(101)

Operating activities

Cash from operating activities was down \$1.07 million year-to-date. 2021 year-to-date cash from operations was positively impacted by a one-time \$1.00 million early termination fee. Excluding this amount, our year-to date cash from operations has remained steady. Q2-2022 cash from operations was up \$0.43 million over Q2-2021. Rent collections remain strong in 2022. Operating assets and liabilities fluctuate period over period.

Our tenant incentives and direct leasing cost investments were \$2.19 million in Q2-2022 (Q2-2021 - \$1.65 million) and \$3.92 million year-to-date (2021- \$3.39 million). We completed 273,154 sf of new and renewed leasing, resulting in occupancy of 87% at quarter-end. The timing of lease expiries impacts the level of spending on tenant incentives and direct leasing costs and will fluctuate from period to period.

Cash before adjustments for working capital and payments of tenant incentives and direct leasing costs decreased \$0.70 million in Q2-2022 and \$1.58 million year-to-date.

Investing activities

We have spent \$0.92 million on our scheduled maintenance program and other projects year-to-date (2021 - \$1.17 million). We remain committed to strategic value-adding asset enhancement and preservation projects as an integral component of our strategy to improve our assets and retain and attract tenants. We resumed our capital investment program in 2021 after pausing any non-essential spend in 2020. We anticipate

spending \$3.49 million in 2022 on planned capital projects. Asset enhancement investments fluctuate based on the nature and timing of projects undertaken.

Financing activities

In Q2-2022 we renewed mortgages on two office properties in the Edmonton region, no additional proceeds were received on renewal. Year-to-date we have completed financing renewals on 3 properties for gross proceeds of \$7.75 million (net \$1.43 million at JV%).

We repurchased 3,824 (2021 - 85,683) units under our NCIB at a cost of \$0.03 million (2021 - \$0.53 million) year-to-date. Our NCIB expired on March 31, 2022 and was not renewed.

We paid distributions of \$1.56 million in Q2-2022 (Q2-2021 - \$1.36 million). We have paid \$3.11 million year-to-date (2021 - \$2.67 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 June 30, 2022 we had \$4.55 million in cash and cash equivalents in addition to \$32.00 million in undrawn liquidity under our revolving credit facility.

Capital Structure

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

Pursuant to the Declaration of Trust (DOT) Degree of Leverage Ratio, we may not incur or assume any indebtedness if, after incurring or assuming such indebtedness, our total indebtedness would be more than 60% of Gross Book Value (GBV) (65% including any convertible debentures). Throughout the period we were in compliance with the Degree of Leverage Ratio and had a ratio of 49% as at June 30, 2022 (58% including convertible debentures).

As at June 30, 2022, our total capitalization was \$729.59 million and is comprised of:

(\$000s)	June 30, 2022	December 31, 2021
Revolving credit facility ¹	3,000	–
Mortgages payable ¹	330,496	337,634
Class C LP Units	38,925	40,160
Indebtedness, excluding convertible debentures	372,421	377,794
Convertible debentures ²	68,975	68,975
Indebtedness	441,396	446,769
Class B LP Units at Historical Cost ³	160,207	160,207
Trust units, excluding transaction costs	127,989	128,027
Equity at historical cost	288,196	288,234
Total capitalization	729,592	735,003
Gross Book Value (GBV)⁴	765,564	766,457
Debt to GBV, excluding convertible debentures (maximum threshold - 60%) ⁵	49 %	49 %
Debt to GBV (maximum threshold - 65%) ⁵	58 %	58 %

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

We are also subject to financial covenants on our revolving credit facility. The covenants include a maximum debt to GBV ratio of 60% (excluding convertible debentures), a minimum debt service coverage ratio of 1.25, and a minimum adjusted unitholders' equity of \$140.00 million as defined within our credit agreement. As at June 30, 2022, and throughout the period, we were in compliance with our financial covenants, obligations and debt covenants. We prepare financial forecasts to monitor changes to our debt and capital levels and manage our ability to meet our financial covenants.

Indebtedness

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

(\$000s)	Total	as at June 30					
		Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Revolving credit facility	3,000	3,000	–	–	–	–	–
Mortgages payable	330,496	15,784	53,719	46,628	23,027	53,415	137,923
Class C LP Units	38,925	27,562	450	467	482	9,964	–
Convertible debentures	68,975	22,975	–	46,000	–	–	–
Total	441,396	69,321	54,169	93,095	23,509	63,379	137,923
% of portfolio	100 %	16 %	12 %	21 %	5 %	15 %	31 %

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.

Year-to-date we have successfully refinanced three properties for gross proceeds of \$7.75 million (net \$1.43 million) at interest rates ranging from fixed at 3.70% - 4.59%, and prime plus 1.0%. We also renewed the Class C debt on another Edmonton area asset at an interest rate of 4.26%. No additional proceeds were received.

Over the next twelve months, two mortgages are up for renewal with a maturing principal balance of \$5.24 million and a weighted average interest rate of 3.81%.

Our 2017 Debenture, with an outstanding principal balance of \$22.98 million is set to mature on December 31, 2022. We are actively engaged with our advisors to review refinance options for this debenture. The REIT continues to monitor its secured debts and proactively engage with lenders in regards to upcoming maturities.

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

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

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

(\$000s)	Total	Fixed	Variable	Weighted average interest rate	Weighted average term to maturity
Revolving credit facility	3,000	–	3,000	– %	2.25
Mortgages payable	330,496	277,784	52,712	3.42 %	4.95
Class C LP Units	38,925	38,925	–	3.89 %	1.81
Convertible debentures	68,975	68,975	–	5.15 %	2.00
Total	441,396	385,684	55,712	3.71 %	4.19

The weighted average interest rate on our debts was 3.71% (December 31, 2021 - 3.62%).

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

(\$000s)	Six months ended June 30, 2022	Year ended December 31, 2021
FFO	12,638	26,681
Principal repayments on Mortgages payable	6,302	10,191
Principal repayments on Class C LP Units	1,235	2,744
Principal repayments	7,537	12,935
Debt service coverage ratio¹	1.68	2.06
FFO plus finance costs	21,804	45,049
Finance costs ²	9,166	18,368
Finance costs coverage ratio¹	2.38	2.45

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

Equity

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

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

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

The following table summarizes the trust units issued and the potentially diluted number of units outstanding as at June 30, 2022 and December 31, 2021:

Issued and fully paid units (\$000s except unit amounts)	June 30, 2022		December 31, 2021	
	Units	\$ Amount	Units	\$ Amount
Balance, beginning of period ¹	12,966,993	128,027	13,050,503	128,848
Issuance of trust units	–	–	2,173	25
Repurchase of trust units	(3,824)	(38)	(85,683)	(846)
Balance, end of period¹	12,963,169	127,989	12,966,993	128,027
<i>Potentially dilutive securities</i>				
Class B LP Units Historical Cost ²	16,125,147	160,207	16,125,147	160,207
Convertible debentures ³	7,166,367	68,975	7,175,690	68,975
Potentially diluted balance, end of period	36,254,683	357,171	36,267,830	357,209

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

Quarterly Results

(\$000s except per unit amount)	2022		2021				2020	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	18,154	18,965	18,542	18,089	17,977	19,486	18,742	18,441
Net income (loss) ¹	18,059	(6,538)	5,301	7,470	(4,619)	(24,439)	(15,714)	(1,645)
NOI ⁴	11,391	11,855	11,640	11,915	11,852	12,627	12,186	10,567
Funds from operations (FFO) ⁴	6,108	6,530	6,371	6,639	6,570	7,101	6,590	5,417
Adjusted funds from operations (AFFO) ⁴	4,352	4,911	4,608	4,982	4,811	5,604	5,144	3,485
Adjusted cash flows from operations (ACFO) ⁴	4,506	5,767	7,675	5,131	4,956	5,749	5,283	3,593
Per unit metrics								
Basic earnings (loss) per unit	\$ 1.39	\$ (0.50)	\$ 0.98	\$ 0.58	\$ (0.36)	\$ (1.87)	\$ (1.20)	\$ (0.13)
FFO (basic) ⁵	\$ 0.21	\$ 0.22	\$ 0.22	\$ 0.23	\$ 0.23	\$ 0.24	\$ 0.23	\$ 0.19
AFFO (basic) ⁵	\$ 0.15	\$ 0.17	\$ 0.16	\$ 0.17	\$ 0.17	\$ 0.19	\$ 0.18	\$ 0.12
ACFO (basic) ⁵	\$ 0.15	\$ 0.20	\$ 0.26	\$ 0.18	\$ 0.17	\$ 0.20	\$ 0.18	\$ 0.12
Annualized distribution rate ³	\$ 0.480	\$ 0.480	\$ 0.480	\$ 0.480	\$0.420	\$ 0.420	\$ 0.360	\$ 0.360
FFO Payout Ratio ⁵	57%	53%	55%	50%	47%	43%	40%	48%
AFFO Payout Ratio ⁵	80%	71%	76%	67%	64%	55%	51%	75%
ACFO Payout Ratio ⁵	77%	61%	46%	65%	62%	53%	50%	73%
Period-end closing unit price	\$6.19	\$7.23	\$6.79	\$6.85	\$6.90	\$6.49	\$4.83	\$3.83
Annualized distribution yield on closing unit price (%) ²	7.75%	6.64%	7.07%	7.01%	6.09%	6.47%	7.45%	9.40%

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

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

There were no material changes to the above titled sections at June 30, 2022 in comparison to the December 31, 2021 annual MD&A.

Internal Control over Financial Reporting and Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were material changes to internal control over financial reporting during the quarter ended June 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Melcor, the REIT's asset and property manager has continually responded to the COVID-19 pandemic by following the guidelines set forth by the Alberta government, at a minimum. As a result, the majority of Melcor's team worked from home wherever practical until mid-March 2022. Remote work arrangements have not impacted the design of our internal controls. The REIT continues to monitor and mitigate the risks associated with changes to its control environment.

Declaration of Trust

The investment guidelines and operating policies of the REIT are outlined in the Amended and Restated DOT dated May 1, 2013. A copy of the DOT is filed on SEDAR at www.sedar.com and is available on request to all unitholders. At July 26, 2022, the REIT was in compliance with all investment guidelines and operating policies stipulated in the DOT.

Non-GAAP and Non-Standard Measures

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

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

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

Calculations

We use the following calculations in measuring our performance.

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

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

(\$000s)	Three months ended June 30			Six months ended June 30		
	2022	2021	Δ%	2022	2021	Δ%
Net income (loss) for the period	18,059	(4,619)		11,521	(29,058)	
Net finance costs	2,985	8,631		8,934	16,690	
Fair value adjustment on Class B LP Units	(16,770)	6,612		(9,675)	33,380	
Fair value adjustment on investment properties	5,540	(531)		9,202	(130)	
General and administrative expenses	810	695		1,598	1,498	
Amortization of operating lease incentives	906	936		1,807	1,851	
Straight-line rent adjustment	(139)	(142)		(141)	(22)	
NOI	11,391	11,582	(2)	23,246	24,209	(4)

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

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

Funds from operations (FFO): FFO is a non-GAAP financial measure and is defined as net income in accordance with IFRS,

excluding: (i) fair value adjustments on investment properties; (ii) gains (or losses) from sales of investment properties; (iii) amortization of tenant incentives; (iv) fair value adjustments, interest expense and other effects of redeemable units classified as liabilities; (v) acquisition costs expensed as a result of the purchase of a property being accounted for as a business combination; and (vi) fair value adjustment on derivative instrument, after adjustments for equity accounted entities, joint ventures and non-controlling interests calculated to reflect FFO on the same basis as consolidated properties. Further discussion over FFO, including a reconciliation from net income, can be found in the Funds from Operations, Adjusted Funds from Operations & Adjusted Cash Flow from Operations section of the MD&A.

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

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

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

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

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

FFO, AFFO and ACFO Payout ratio: FFO, AFFO and ACFO payout ratios are non-GAAP ratio and is calculated as per unit

distributions divided by basic per unit FFO, AFFO and ACFO. Further discussion over FFO per unit can be found in the Funds from Operations, Adjusted Funds from Operations & Adjusted Cash Flow from Operations section of the MD&A.

Finance costs coverage ratio: Finance costs coverage ratio is a non-GAAP ratio and is calculated as FFO plus finance costs for the period divided by finance costs expensed during the period excluding distributions on Class B LP Units and fair value adjustment on derivative instruments. Further discussion over finance costs coverage ratio, including a calculation, can be found in the Liquidity & Capital Resources section of the MD&A.

Debt service coverage ratio: Debt service coverage ratio is a non-GAAP ratio and is calculated as FFO for the period divided by principal repayments on mortgages payable and Class C LP Units made during the period. Further discussion over debt service coverage ratio, including a calculation, can be found in the Liquidity & Capital Resources section of the MD&A.

Debt to Gross Book Value: Debt to GBV is a non-GAAP ratio and is calculated as the sum of total amount drawn on revolving credit facility, mortgages payable, Class C LP Units, excluding unamortized fair value adjustment on Class C LP Units, liability held for sale (as applicable) and convertible debenture, excluding unamortized discount and transaction costs divided by GBV. GBV is calculated as the total assets acquired in the Initial Properties, subsequent asset purchases and development costs less dispositions. Further discussion over debt to GBV, including a calculation, can be found in the Liquidity & Capital Resources section of the MD&A.

Income before fair value adjustment and taxes: Income before fair value adjustment and income taxes is a non-GAAP financial measure and is calculated as net income excluding fair value adjustments for Class B LP Units, investment properties and derivative instruments.

(\$000s)	Three months ended June 30			Six months ended June 30		
	2022	2021	△%	2022	2021	△%
Net income (loss) for the period	18,059	(4,619)		11,521	(29,058)	
Fair value adjustment on Class B LP Units	(16,770)	6,612		(9,675)	33,380	
Fair value adjustment on investment properties	5,540	(531)		9,202	(130)	
Fair value adjustment on derivative instruments	(3,562)	2,479		(4,087)	4,242	
Income before fair value adjustment and taxes	3,267	3,941	(17)	6,961	8,434	(17)

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).