Press Release

for immediate distribution

Melcor REIT announces second quarter 2023 results

Edmonton, Alberta | July 27, 2023

Melcor REIT (TSX: MR.UN) today announced results for the second quarter ended June 30, 2023. Revenue was stable at $18.12 million in the quarter and $37.11 million year-to-date. Second quarter same-asset NOI was up 4% to $11.02 million and was up 1% year-to-date at $21.92 million. In-place occupancy currently sits at 87% with committed occupancy at 89%.

Andrew Melton, CEO of Melcor REIT commented: "I'm pleased to report another quarter of stable results for the REIT. We continue to be encouraged with progress we are making on new and renewed leasing, and have achieved a 92% retention rate to date in 2023. We believe our leasing efforts will show benefits in the quarters to come.

The REIT is experiencing many of the same current challenges of the real estate industry including escalating financing costs, increasing inflation in operating and leasing costs, occupancy and leasing challenges in office space, and increasing capitalization rates impacting valuations and financing.

During the quarter we listed our Saskatchewan properties for sale as part of a strategic decision to focus on our Alberta markets. The sale of these properties would serve to reduce the REIT's operating loan providing additional liquidity for future opportunities. We remain committed on achieving value for our unitholders and believe these assets can be sold at a price that is reflective of current market conditions."

HIGHLIGHTS:

We continue to focus efforts on leasing and completed 48,767 sf of new leasing and 418,132 sf in renewals and holdovers year-to-dater for a 92% retention rate. Occupancy remains strong at 87% with commitment on an additional 40,158 sf bringing committed occupancy up to 89%. Weighted average base rents (WABR) improved 2% since year end despite challenging market conditions. Our portfolio produced stable results in the second quarter despite rising costs and inflationary pressures in all our markets.

Retail properties continue to anchor our portfolio, and have seen slight improvements in both occupancy and WABR compared to last year. Retail represents 44% of our total GLA and 61% of net rental income in Q2-2023. 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.

We remain prudently focussed on identifying opportunities to strategically acquire or dispose of assets, with intentionality around pruning non-core assets. In Q1-2023, we sold Kelowna Business Centre for $19.50 million. This was an opportunistic sale that enabled the REIT to pay down our line of credit while also achieving a good return on investment for unitholders. In Q2-2023, we listed our five Saskatchewan properties for sale. Under International Financial Reporting Standards (IFRS), this required a balance sheet reclassification of the three retail properties as assets held for sale and the exclusion of these properties from our same-asset NOI calculations. These properties have a combined 198,000 sf and were listed for sale due to their geographic location as part of a strategic decision to focus on our Alberta markets. The asset sales would generate net cash proceeds which would be used to pay down the revolving credit facility.

In the quarter and year-to-date, rental revenue remained steady, with net rental consistent over Q2-2022 and a slight decrease of 2% year-to-date, due to the amortization of tenant incentives recognized in the period. Comparative to Q2-2022, NOI increased 3%, and is consistent year-to-date. Our same-asset NOI calculations normalize out Kelowna Business Center, which was sold in 2023, as well as assets held for sale, and is up 1% year-to-date and 4% in the quarter. NOI variance is largely due to the timing of operating expenses and increased utility costs including gas/heat and power, offset by the recovery revenues collected.

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 properly manage our assets to attract and retain tenants. This increase in estimate resulted in a reduction in the quarter and year to date to both adjusted funds from operations, which was down 6% in the quarter and down 16% year-to-date, as well as adjusted cash from operations which was down 7% in the quarter and 17% year to date. These reductions had an inverse effect on our payout ratios, which have gone up in both the quarter and year-to-date.

FINANCIAL HIGHLIGHTS

Financial highlights of our performance are summarized below.

Second quarter:

- Revenue remained stable at $18.12 million (Q2-2022: $18.15 million)
- NOI was up 3% at $11.69 million (Q2-2022: $11.39 million)
- FFO was up 1% to $6.17 million or $0.21 per unit (Q2-2022: $6.11 million or $0.21 per unit)
- ACFO was down 7% at $4.20 million or $0.14 per unit (Q2-2022: $4.51 million or $0.15 per unit) for a quarterly payout ratio of 83% based on ACFO (Q2-2022: 77%)

Year-to-date:

- Revenue remained stable at $37.11 million (2022: $37.12 million)
- NOI remained stable at $23.21 million (2022: $23.25 million)
- FFO was down 4% at $12.18 million or $0.42 per unit (Q2-2022: $12.64 million or $0.43 per unit)
- ACFO was down 17% at $7.97 million or $0.27 per unit (Q2-2022: $9.57 million or $0.33 per unit) for a year-to-date payout ratio of 88% based on ACFO (2022: 73%)

As at June 30, 2023 we had $3.18 million in cash and $8.60 million in undrawn liquidity under our revolving credit facility. In the quarter, we paid out one mortgage using our revolving credit facility for $4.00 million, and paid out $14.26 million of one of our Class C mortgages with $12.74 million in proceeds from a new mortgage signed in the quarter at a rate of 4.62% over a five year term, with the remaining balance paid out using our revolving credit facility.

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 466,899 sf of new and renewed leases (including holdovers) and we have retained 92% of expiring leases. Future leasing is promising, with commitments on an additional 40,158 sf in new deals which would bring committed occupancy up to 89%. Leasing efforts yielded a WABR increase of 2% across the portfolio in Q2-2023, 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 83% (88% year-to-date) based on ACFO and 57% (57% year-to-date) based on FFO.

SUBSEQUENT EVENT

On July 14, 2023 we declared a distribution of $0.04 per unit payable on August 15, 2023 to unitholders on record on July 31, 2023.

Non-standard KPI's:

	Three months ended June 30			Six months ended June 30		
($000's)	**2023**	2022	△%	**2023**	2022	△%
NOI[1]	**11,689**	11,391	3	**23,211**	23,246	–
Same-asset NOI[1]	**11,019**	10,564	4	**21,920**	21,648	1
FFO[1]	**6,173**	6,108	1	**12,181**	12,638	(4)
AFFO[1]	**4,081**	4,352	(6)	**7,740**	9,263	(16)
ACFO[1]	**4,198**	4,506	(7)	**7,974**	9,571	(17)
Rental revenue	**18,123**	18,154	–	**37,113**	37,119	–
Income before fair value adjustments[1]	**3,245**	3,267	(1)	**6,260**	6,961	(10)
Fair value adjustment on investment properties[2]	**(7,830)**	(5,540)	nm	**(9,416)**	(9,202)	nm
Cash flows from operations	**3,087**	2,430	27	**4,969**	6,723	(26)
Distributions paid to unitholders	**1,555**	1,556	–	**3,111**	3,112	–
Distributions paid[3]	**$0.12**	$0.12	–	**$0.24**	$0.24	–

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:

	June 30, 2023	December 31, 2022	△%
Number of properties	**38**	39	(3)
GLA (sf)	**3,148,015**	3,216,141	(2)
Occupancy (weighted by GLA)	**87.2 %**	88.1 %	–
Retention (weighted by GLA)	**92.2 %**	86.1 %	11
Weighted average remaining lease term (years)	**4.08**	4.25	(11)
Weighted average base rent (per sf)	**$16.80**	$16.55	1

Per Unit Metrics:

	Three months ended June 30			Six months ended June 30		
	2023	2022	△%	**2023**	2022	△%
Per Unit Metrics						
Net income (loss)						
Basic	**$0.56**	$1.39		**$0.84**	$0.89	
Diluted	**($0.05)**	$0.11		**$0.04**	$0.20	
Weighted average number of units for net income (loss) (000s):[1]						
Basic	**12,963**	12,963	–	**12,963**	12,964	–
Diluted	**29,088**	29,088	–	**29,088**	29,089	–
FFO						
Basic[2]	**$0.21**	$0.21		**$0.42**	$0.43	
Diluted[2]	**$0.20**	$0.20		**$0.40**	$0.42	
Payout ratio[2]	**57 %**	57 %		**57%**	56%	
AFFO						
Basic [2]	**$0.14**	$0.15		**$0.27**	$0.32	
Payout ratio[2]	**86 %**	80 %		**90%**	75%	
ACFO						
Basic[2]	**$0.14**	$0.15		**$0.27**	$0.33	
Payout ratio[2]	**83 %**	77 %		**88%**	73%	
Weighted average number of units for FFO, AFFO and ACFO (000s):[3]						
Basic	**29,088**	29,088	–	**29,088**	29,089	–
Diluted	**34,257**	36,255	(6)	**34,257**	36,255	(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:

	June 30, 2023	December 31, 2022	△%
Total assets ($000s)	**702,881**	730,769	(4)
Equity at historical cost ($000s)[1]	**288,196**	288,196	–
Indebtedness ($000s)[2]	**420,362**	440,688	(5)
Weighted average interest rate on debt	**4.16 %**	4.01 %	4
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]	**2.26**	2.32	(3)
Debt service coverage ratio[5]	**1.93**	1.88	3

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 Q2-2023 quarterly report to unitholders. The REIT's consolidated financial statements and management's discussion and analysis for the three-months ended June 30, 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 July 28, 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/12635. 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 June 30, 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 June 30			Six months ended June 30		
($000s)	**2023**	2022	△%	**2023**	2022	△%
Net income for the period	**7,198**	18,059		**10,854**	11,521	
Fair value adjustment on Class B LP Units	**(10,643)**	(16,770)		**(13,546)**	(9,675)	
Fair value adjustment on investment properties	**7,830**	5,540		**9,416**	9,202	
Fair value adjustment on derivative instruments	**(1,140)**	(3,562)		**(464)**	(4,087)	
Income before fair value adjustment and taxes	**3,245**	3,267	(1)	**6,260**	6,961	(10)

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 June 30			Six months ended June 30		
($000s)	**2023**	2022	△%	**2023**	2022	△%
Net income for the period	**7,198**	18,059		**10,854**	11,521	
Net finance costs	**5,492**	2,985		**13,012**	8,934	
Fair value adjustment on Class B LP Units	**(10,643)**	(16,770)		**(13,546)**	(9,675)	
Fair value adjustment on investment properties	**7,830**	5,540		**9,416**	9,202	
General and administrative expenses	**736**	810		**1,515**	1,598	
Amortization of tenant incentives	**993**	906		**2,051**	1,807	
Straight-line rent adjustment	**83**	(139)		**(91)**	(141)	
NOI	**11,689**	11,391	3	**23,211**	23,246	–

Same-asset Reconciliation:

	Three months ended June 30			Six months ended June 30		
($000s)	**2023**	2022	△%	**2023**	2022	△%
Same-asset NOI	**11,019**	10,564	4	**21,920**	21,648	1
Disposals	**670**	827		**1,291**	1,598	
NOI[1]	**11,689**	11,391	3	**23,211**	23,246	–
Amortization of tenant incentives	**(993)**	(906)		**(2,051)**	(1,807)	
SLR adjustment	**(83)**	139		**91**	141	
Net rental income	**10,613**	10,624	–	**21,251**	21,580	(2)

FFO & AFFO Reconciliation:

	Three months ended June 30			Six months ended June 30		
($000s, except per unit amounts)	**2023**	2022	△%	**2023**	2022	△%
Net income for the period	**7,198**	18,059		**10,854**	11,521	
Add / (deduct)						
Fair value adjustment on investment properties	**7,830**	5,540		**9,416**	9,202	
Fair value adjustment on Class B LP Units	**(10,643)**	(16,770)		**(13,546)**	(9,675)	
Amortization of tenant incentives	**993**	906		**2,051**	1,807	
Distributions on Class B LP Units	**1,935**	1,935		**3,870**	3,870	
Fair value adjustment on derivative instruments	**(1,140)**	(3,562)		**(464)**	(4,087)	
FFO[1]	**6,173**	6,108	1	**12,181**	12,638	(4)
Deduct						
Straight-line rent adjustments	**83**	(139)		**(91)**	(141)	
Normalized capital expenditures	**(750)**	(588)		**(1,500)**	(1,176)	
Normalized tenant incentives and leasing commissions	**(1,425)**	(1,029)		**(2,850)**	(2,058)	
AFFO	**4,081**	4,352	(6)	**7,740**	9,263	(16)
FFO/Unit	**$0.21**	$0.21		**$0.42**	$0.43	
AFFO/Unit	**$0.14**	$0.15		**$0.27**	$0.32	
Weighted average number of units (000s):[1]	**29,088**	29,088	–	**29,088**	29,089	–

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 June 30			Six months ended June 30		
($000s, except per unit amounts)	**2023**	2022	△%	**2023**	2022	△%
Cash flows from operations	**3,087**	2,430	27	**4,969**	6,723	(26)
Distributions on Class B LP Units	**1,935**	1,935		**3,870**	3,870	
Actual payment of tenant incentives and direct leasing costs	**1,046**	2,188		**3,001**	3,921	
Changes in operating assets and liabilities	**601**	(139)		**1,133**	(1,067)	
Amortization of deferred financing fees	**(296)**	(291)		**(649)**	(642)	
Normalized capital expenditures	**(750)**	(588)		**(1,500)**	(1,176)	
Normalized tenant incentives and leasing commissions	**(1,425)**	(1,029)		**(2,850)**	(2,058)	
ACFO	**4,198**	4,506	(7)	**7,974**	9,571	(17)
ACFO/Unit	**$ 0.14**	$ 0.15		**$0.27**	$0.33	
Weighted average number of units (000s)[1]	**29,088**	29,088	–	**29,088**	29,089	–

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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