# Press Release

for immediate distribution

# Melcor REIT announces third quarter 2020 results

Edmonton, Alberta | November 5, 2020

## Highlights

- Rental revenue was up 6% over Q3-2019 at $18.44 million; up 6% at $55.83 million year to date
- Net operating income was down 8% over Q3-2019 at $10.57 million, and increased 1% at $34.27 million year to date
- Adjusted cash flow from operations (ACFO) was down 26% to $3.59 million or $0.12 per unit over Q3-2019; down 7% to $13.30 million or $0.46 per unit year to date
- Occupancy increased slightly over Q2-2020 at 88.4%;
- Distributions of $0.03 per trust unit were paid in July, August and September for an ACFO quarterly payout ratio of 73%

Melcor REIT (TSX: MR.UN) today announced results for the third quarter ended September 30, 2020. Rental revenue was up 6% compared to the Q3-2019 and up 6% over the prior year. Net operating income decreased 8% over Q3-2019 to $10.57 million and increased 1% to $34.27 million year to date. ACFO was down 26% to $3.59 million or $0.12 per unit over Q3-2019 and down 7% to $13.30 million or $0.46 per unit year to date.

Darin Rayburn, President & CEO of Melcor REIT commented: "The fundamentals of our business have remained stable in the third quarter and throughout 2020 and we remain confident in our strategy. We completed lease renewals representing 209,644 sf for a healthy retention rate of 79.6% at quarter end. New leasing has been steady across the portfolio with 98,523 sf in new deals commencing to date in 2020 and an additional 69,000 sf committed for the future. Occupancy is slightly up at 88.4% and has held relatively steady in a challenging market. Revenue growth of 6% in both the quarter and year to date is attributable to recent portfolio growth. The acquisition completed in November 2019 (renamed Melcor Crossing) increased the size of our portfolio by 10% based on GLA.

The impacts of COVID-19 through Q2-2020 and early Q3 are now more fully understood. In addition to the property value write-downs of $59.83 million year to date, we have provided for $1.31 million in doubtful accounts and have forgiven $0.67 million (net) in rent related to the CECRA program, which we applied for on behalf of 79 tenants. We also deferred $0.78 million in rent payable via deferral agreements with our tenants which provide for the deferred rent to be paid back over a period of 1 to 4 months.

COVID case numbers are currently spiking in Alberta. We are hopeful that this current rise can be curtailed by individuals taking responsibility for their own health and safety as well as those around them, rather than resorting to a second round of business closures. As the CECRA program has now ended, tenants will have individual access to new government programs should they require.

We worked diligently with our tenants to support them through the first phase of COVID. We believe that the strong relationships that we continually build with our tenants have been a key factor in minimizing the impact of COVID on our business.

Although the environment appears more stable than it was following the second quarter, it is still not possible to accurately predict the extent and duration of the impact of COVID-19 on our future results.

We believe that continued solidarity and partnership with our tenants will provide them the best opportunity to endure the pandemic and be successful in the long-term.

We continue to monitor the situation, make thoughtful decisions and take action to come through this together with our tenants."

### Q3-2020 Highlights:

Our portfolio performance remained stable through the nine months ended September 30, 2020 in spite of the COVID-19 pandemic compounding already challenging markets. While leasing activity has slowed as a result of the pandemic, we remained proactive in renewing existing tenants, resulting in a healthy retention rate of 79.6% at quarter-end. We also continue to pursue new tenant opportunities and achieved a modest increase in occupancy to 88.4% compared to year end.

COVID-19 continues to impact results as described in the Significant Event - COVID-19 section of our Q3-2020 MD&A. The main impacts in Q3-2020 and year to date are:

- Bad debts expense of $0.56 million ($1.31 million year to date)
- CECRA rent forgiveness of $0.67 million.
- Decline in our traded security values, with a 53% decrease in the trading price of the REIT's trust units (compared to Dec. 31/19), resulting in a $69.18 million gain on the valuation of our Class B LP Units. As of September 30, 2020 our convertible debentures are trading at an average of $77.43 (down from $103.00 at Dec. 31/19).
- Portfolio revaluation resulting in fair value losses of $59.83 million.

Highlights of our performance in the third quarter include:

### FINANCIAL HIGHLIGHTS

- The REIT's portfolio grew by 12% (based on sf, via third-party acquisition) in 2019, contributing to revenue growth of 6% in both the quarter and year to date periods. The growth in our portfolio was offset by the impact of the COVID-19 pandemic. Net operating income (NOI) was down 8% in the third quarter (up 1% year to date), as a result of the following charges recorded in income during the period:
    - $0.67 million in write-offs related to the CECRA program,
    - $0.56 million ($1.31 million year to date) for bad debts expense, and
    - $0.27 million related to lease restructuring and rent forgiveness.
- Net income in the current and comparative periods is significantly impacted by fair value adjustments on investment properties due to changes in NOI/capitalization rates and by non-cash fair value adjustments on Class B LP Units due to changes in the REIT's unit price. Management believes funds from operations (FFO) is a better reflection of our true operating performance. FFO was $5.42 million or $0.19 per unit, compared to $6.57 million or $0.23 in Q3-2019, a direct result of lower same-asset NOI.
- ACFO was down 26% to $3.59 million or $0.12 per unit (2019 - $4.88 million or $0.17 per unit) due to decreased FFO. Management believes that ACFO best reflects our cash position and therefore our ability to pay distributions. The REIT preemptively reduced our distribution in the second quarter in anticipation of lower ACFO in the near term.
- As at September 30, 2020 we had $4.29 million in cash and $12.00 million in undrawn liquidity under our revolving credit facility.

### OPERATING HIGHLIGHTS

- Year-to-date same-asset NOI was down 8% compared to Q3-2019 due to write-offs related to the CECRA program, provisions for bad debts and charges related to lease restructuring in addition to the drag from the large tenant that vacated a downtown Edmonton office building on October 1, 2019.
- We continued to execute on our proactive leasing strategy to both retain existing and attract new tenants. We completed lease renewals representing 209,644 sf (including holdovers) for a retention rate of 79.6% at September 30, 2020. New leasing has been steady across the portfolio with 98,523 sf in new deals commencing to date in 2020 and an additional 69,109 sf committed for future occupancy.

### CREATING UNITHOLDER VALUE

- We paid distributions of $0.03 per trust unit in July, August and September for a quarterly payout ratio of 73% based on ACFO and 48% based on FFO (2019 - 97% and 72% respectively). Distributions were reduced by 47% as of April 2020 in order to conserve cash in response to market volatility.
- On April 1, 2020 we commenced a new NCIB. We are entitled to purchase up to 655,792 trust units for cancellation, representing approximately 5% of the REIT's issued and outstanding trust units. The trust units may be repurchased up to a maximum daily limit of 3,207. The price which the REIT will pay for trust units repurchased under the plan will be the market price at the time of acquisition. The NCIB ends one year from commencement, on March 31, 2021. Under this NCIB, we purchased 59,526 units for $0.21 million at a weighted average cost of $3.50 per unit or 36% of book value.
- Following the expiration of the blackout on May 15, 2020 the REIT suspended its purchases under the NCIB program and cancelled its Automatic Share Purchase Plan (ASPP) in light of continued market volatility and as part of our cash conservation program. The

REIT still believes that our units have been trading in a price range which does not reflect the value of the units in relation to our current and future business prospects.

## SUBSEQUENT EVENT

- On October 15, 2020 we declared a distribution of $0.03 per trust unit for the months of October, November and December 2020. The October distribution is payable on November 16, 2020 to unitholders on record October 30, 2020. The November distribution is payable on December 15, 2020 to unitholders on record November 30, 2020. The December distribution is payable on January 15, 2021 to unitholders on record December 31, 2020.

## *Financial Highlights*

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| **($000s)** | **2020** | 2019 | △% | **2020** | 2019 | △% |
| ***Non-standard KPIs*** | | | | | | |
| Net operating income (NOI) | **10,567** | 11,460 | (8)% | **34,270** | 33,854 | 1 % |
| Same-asset NOI | **9,532** | 11,249 | (15)% | **30,730** | 33,490 | (8)% |
| Funds from operations (FFO) | **5,417** | 6,570 | (18)% | **18,660** | 19,579 | (5)% |
| Adjusted funds from operations (AFFO) | **3,485** | 4,860 | (28)% | **12,983** | 14,253 | (9)% |
| Adjusted cash flow from operations (ACFO)(5) | **3,593** | 4,875 | (26)% | **13,299** | 14,295 | (7)% |
| | | | | | | |
| Rental revenue | **18,441** | 17,468 | 6 % | **55,830** | 52,886 | 6 % |
| Income before fair value adjustments | **3,054** | 3,189 | (4)% | **10,148** | 9,366 | 8 % |
| Fair value adjustment on investment properties(1) | **(2,535)** | 462 | nm | **(59,831)** | (258) | nm |
| Cash flows from operations | **4,549** | 2,979 | 53 % | **10,954** | 6,842 | 60 % |
| | | | | | | |
| Distributions to unitholders | **1,174** | 2,218 | (47)% | **4,565** | 6,666 | (32)% |
| Distributions(2) | **$0.09** | $0.17 | — % | **$0.35** | $0.51 | — % |
| | | | | | | |
| ***Per Unit Metrics*** | | | | | | |
| Net income (loss) | | | | | | |
| Basic | **($0.13)** | $0.18 | | **$1.64** | $0.36 | |
| Diluted | **($0.13)** | $0.18 | | **($1.44)** | $0.36 | |
| Weighted average number of units for net income (000s):(3) | | | | | | |
| Basic | **13,051** | 13,149 | (1)% | **13,083** | 13,169 | (1)% |
| Diluted | **13,051** | 13,149 | (1)% | **29,208** | 13,169 | 122 % |
| FFO | | | | | | |
| Basic | **$0.19** | $0.23 | | **$0.64** | $0.70 | |
| Diluted | **$0.18** | $0.23 | | **$0.61** | $0.69 | |
| Payout ratio | **48 %** | 72 % | | **55%** | 73% | |
| AFFO | | | | | | |
| Basic | **$0.12** | $0.17 | | **$0.44** | $0.51 | |
| Payout ratio | **75 %** | 97 % | | **78%** | 100% | |
| ACFO(5) | | | | | | |
| Basic | **$0.12** | $0.17 | | **$0.46** | $0.51 | |
| Payout ratio | **73 %** | 97 % | | **77%** | 99% | |
| Weighted average number of units for FFO, AFFO and ACFO (000s):(4) | | | | | | |
| Basic | **29,176** | 28,048 | 4 % | **29,208** | 28,069 | 4 % |
| Diluted | **36,344** | 32,775 | 11 % | **36,376** | 32,796 | 11 % |

1. *The abbreviation nm is shorthand for not meaningful.*
2. *Distributions for the current period have been paid out at a rate of $0.05625 per unit for the months of January-March and $0.03 per unit for the months of April-September. Distributions for the comparative periods have been paid out at a rate of $0.05625 per unit per month.*
3. *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.*
4. *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. The diluted weighted average number of units includes convertible debentures.*
5. *In Q4-2019 we amended our definition of amortization of deferred financing fees to exclude accretion on convertible debenture. Amortization of deferred financing fees is an adjusting item in the calculation of ACFO. This change was applied retroactively.*

| | **Sep 30, 2020** | Dec 31, 2019 | △% |
|---|---|---|---|
| Total assets ($000s) | **729,109** | 783,534 | (7)% |
| Equity ($000s)(1) | **289,055** | 289,873 | — % |
| Debt ($000s)(2) | **451,918** | 454,013 | — % |
| Weighted average interest rate on debt | **3.74 %** | 3.78 % | (1)% |
| Debt to GBV, excluding convertible debentures (maximum threshold - 60%) | **50%** | 50% | —% |
| Debt to GBV (maximum threshold - 65%) | **59%** | 59% | —% |
| Finance costs coverage ratio(3) | **2.31** | 2.45 | (6)% |
| Debt service coverage ratio(4) | **2.71** | 2.26 | 20 % |

1. *Calculated as the sum of trust units and Class B LP Units at their book value. In accordance with IFRS the Class B LP Units are presented as a financial liability in the consolidated financial statements.*
2. *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 debentures, excluding unamortized discount and transaction costs.*
3. *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 metrics is not calculated for purposes of covenant compliance on any of our debt facilities. Please refer to page 26 of the MD&A for further discussion and analysis.*
4. *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 metrics is not calculated for purposes of covenant compliance on any of our debt facilities. Please refer to page 26 of the MD&A for further discussion and analysis.*

## *Operational Highlights*

| | **Sep 30, 2020** | Dec 31, 2019 | △% |
|---|---|---|---|
| Number of properties | **39** | 39 | — % |
| Gross leasable area (GLA) (sf) | **3,208,299** | 3,208,950 | — % |
| Occupancy (weighted by GLA) | **88.4%** | 88.0% | —% |
| Retention (weighted by GLA) | **79.6%** | 59.6% | 34% |
| Weighted average remaining lease term (years) | **4.04** | 4.37 | (8)% |
| Weighted average base rent (per sf) | **$16.51** | $16.79 | (2)% |

### 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 Q3-2020 quarterly report to unitholders. The REIT's consolidated financial statements and management's discussion and analysis for the three and nine-months ended September 30, 2020 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 November 6, 2020 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 www.gowebcasting.com/10826. A replay of the call will be available at the same URL shortly after the call is concluded.

## About Melcor REIT

Melcor REIT is an unincorporated, open-ended real estate investment trust. Melcor REIT owns, acquires, manages and leases quality retail, office and industrial income-generating properties in western Canadian markets. Its portfolio is currently made up of interests in 39 properties representing approximately 3.21 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-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 September 30, 2020, which is available on SEDAR at www.sedar.com.

### 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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