

# Press Release

for immediate distribution

## Melcor REIT announces third quarter 2022 results

Edmonton, Alberta | November 3, 2022

Melcor REIT (TSX: MR.UN) today announced results for the third quarter ended September 30, 2022. Revenue was stable in the quarter and year-to-date. Net operating income was down 3% in the quarter at \$11.61 million due to the timing of operating expenses and inflated costs including utilities like gas/heat and power. Occupancy currently sits at 88%, a 1% improvement over second quarter and year-end, and we have retained 89% of expiring leases year-to-date.

Andrew Melton, CEO of Melcor REIT commented: "I am pleased to share Melcor REIT's third quarter results. Our portfolio continues to produce stable results despite being tested by numerous factors, including inflationary pressures, increasing interest rates, and a slower than expected return to office following the lifting of work-from-home restrictions.

Our leasing team is finding success in new leasing and renewals while our property management teams focus on providing a strong tenant experience. To date we have signed 127,914 sf of new leasing and 319,079 sf of renewals. Further, we have commitments on an additional 85,024 sf of upcoming renewals. While our occupancy displays a modest increase, we have experienced a significant increase in committed space that will translate to occupancy in the coming months.

Our 2017 Debenture is set to mature on December 31, 2022. We are in the process of reviewing options for financing and have room on our current credit facility to absorb this debenture if required. We are focused on ensuring that the REIT has the flexibility to enter the market under more stable conditions. The REIT continues to monitor its secured debts, including our mortgages and Class C debt, and we proactively engage with lenders in regards to upcoming maturities.

We held our distributions for July, August, September and October at \$0.04 per unit. The Board of Trustees also declared a distribution of \$0.04 per unit for both November and December 2022."

### HIGHLIGHTS:

Certain factors contributed significantly to results in 2022 when compared to 2021. They are:

- **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 significant 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 in August 2021 and has remained stable at \$0.04 per unit throughout 2022.

### FINANCIAL HIGHLIGHTS

Financial highlights of our performance are summarized below.

#### Third quarter:

- Revenue was up 1% at \$18.19 million (Q3-2021: \$18.09 million)
- NOI was down 3% at \$11.61 million (Q3-2021: \$11.92 million)
- FFO was down 5% to \$6.31 million or \$0.22 per unit (Q3-2021: \$6.64 million or \$0.23 per unit).
- ACFO was down 10% at \$4.62 million or \$0.16 per unit (Q3-2021: \$5.13 million or \$0.18 per unit). The third quarter payout ratio was 76% based on ACFO (Q3-2021: 65%).

#### Year-to-date:

- Revenue was stable at \$55.31 million. (2021: \$55.55 million) Excluding the Early Termination event, year-to-date revenue was up 1%.
- NOI was down 4% at \$34.86 million. (2021: \$36.12 million) Excluding the Early Termination event, year-to-date NOI was down 1%.
- FFO was down 7% to \$18.94 million or \$0.65 per unit (2021: \$20.31 million or \$0.70 per unit). Excluding the Early Termination event FFO was down 2%.
- ACFO was down 10% at \$14.19 million or \$0.49 per unit (2021: \$15.84 million or \$0.54 per unit). Excluding the Early Termination event ACFO was down 4%. The year-to-date payout ratio was 74% based on ACFO (2021: 60%).
- Fair value on our investment properties portfolio was up 0.4% to \$726.91 million compared to \$723.73 million at year-end.

As at September 30, 2022 we had \$2.71 million in cash and \$29.92 million in undrawn liquidity under our revolving credit facility. We have completed financing renewals on 5 properties totaling \$41.34 million in renewals at interest rates ranging from fixed at 3.70% - 5.00%, and prime plus 1.00%.

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 proactively renewing existing tenants and have produced a strong retention rate of 89% year-to-date. We continue to pursue new tenant opportunities and have commenced 127,914 sf in new leases. New leasing includes 40,613 sf of temporary seasonal space that will not produce long-term cash flows.

We are pleased with the volume of new leasing activity across our portfolio. Year-to-date leasing includes 446,993 sf of new and renewed leases (including holdovers) and we have retained 89% of expiring leases year-to-date. Future leasing is promising, with commitment on an additional 85,024 sf in new deals.

Retail properties have seen increased occupancy and maintained strong WABR compared to Q3-2021 while office properties continue to navigate downward pressure on rental rates and an increase in supply in some of our key geographic areas. As such, we have seen compression on both WABR and occupancy, down 1% and 3% respectively in the office market. Overall, WABR has remained stable compared to Q3-2021 and year-end.

### DISTRIBUTIONS

Our monthly distributions remained at \$0.04 per unit in 2022, stable over year-end after a 14% increase in August 2021.

The quarterly payout ratio was 76% based on ACFO and 55% based on FFO (Q3-2021: \$0.035 per unit; ACFO: 65% and FFO: 50%). The year-to-date payout ratio was 74% based on ACFO and 55% based on FFO (2021: \$0.035 per unit; ACFO: 60% and FFO: 47%).

### SUBSEQUENT EVENT

Subsequent to the quarter, we declared distributions for November and December and will be paying the previously declared October distribution as follows:

Month	Declaration Date	Record Date	Distribution Date	Distribution Amount
October 2022	August 15, 2022	October 31, 2022	November 15, 2022	\$0.04 per Unit
November 2022	November 3, 2022	November 30, 2022	December 15, 2022	\$0.04 per Unit
December 2022	November 3, 2022	December 30, 2022	January 16, 2023	\$0.04 per Unit

### FINANCIAL HIGHLIGHTS & KEY PERFORMANCE INDICATORS (KPI)

(\$000's)	Three months ended September 30			Nine months ended September 30		
	2022	2021	△%	2022	2021	△%
<b>Non-standard KPIs</b>						
NOI <sup>1</sup>	<b>11,613</b>	11,915	(3)	<b>34,859</b>	36,124	(4)
Same-asset NOI <sup>1</sup>	<b>11,613</b>	11,915	(3)	<b>34,859</b>	36,124	(4)
FFO <sup>1</sup>	<b>6,306</b>	6,639	(5)	<b>18,944</b>	20,310	(7)
AFFO <sup>1</sup>	<b>4,464</b>	4,982	(10)	<b>13,727</b>	15,397	(11)
ACFO <sup>1</sup>	<b>4,623</b>	5,131	(10)	<b>14,194</b>	15,836	(10)
Rental revenue	<b>18,189</b>	18,089	1	<b>55,308</b>	55,552	-
Income before fair value adjustments <sup>1</sup>	<b>2,770</b>	3,668	(24)	<b>9,731</b>	12,102	(20)
Fair value adjustment on investment properties <sup>2</sup>	<b>6,337</b>	2,535	nm	<b>(2,865)</b>	2,665	nm
Cash flows from operations	<b>819</b>	4,540	(82)	<b>7,542</b>	12,332	(39)
Distributions paid to unitholders	<b>1,555</b>	1,426	9	<b>4,667</b>	4,092	14
Distributions paid <sup>3</sup>	<b>\$0.12</b>	\$0.12	-	<b>\$0.36</b>	\$0.33	9

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 September 2022. Distributions in the comparative period were paid out at \$0.035 per unit per month from January to July 2021, and increased to \$0.04 in August 2021.

	Three months ended September 30			Nine months ended September 30		
	2022	2021	△%	2022	2021	△%
<b>Per Unit Metrics</b>						
Net income (loss)						
Basic	<b>\$1.48</b>	\$0.58		<b>\$2.37</b>	(\$1.66)	
Diluted	<b>\$0.44</b>	\$0.27		<b>\$0.66</b>	(\$1.66)	
Weighted average number of units for net income (loss) (000s): <sup>1</sup>						
Basic	<b>12,963</b>	12,965	—	<b>12,964</b>	12,995	—
Diluted	<b>36,255</b>	36,259	—	<b>36,255</b>	12,995	179
FFO						
Basic <sup>2</sup>	<b>\$0.22</b>	\$0.23		<b>\$0.65</b>	\$0.70	
Diluted <sup>2</sup>	<b>\$0.21</b>	\$0.22		<b>\$0.62</b>	\$0.66	
Payout ratio <sup>2</sup>	<b>55 %</b>	50 %		<b>55%</b>	47%	
AFFO						
Basic <sup>2</sup>	<b>\$0.15</b>	\$0.17		<b>\$0.47</b>	\$0.53	
Payout ratio <sup>2</sup>	<b>78 %</b>	67 %		<b>76%</b>	61%	
ACFO						
Basic <sup>2</sup>	<b>\$0.16</b>	\$0.18		<b>\$0.49</b>	\$0.54	
Payout ratio <sup>2</sup>	<b>76 %</b>	65 %		<b>74%</b>	60%	
Weighted average number of units for FFO, AFFO and ACFO (000s): <sup>3</sup>						
Basic	<b>29,088</b>	29,090	—	<b>29,089</b>	29,120	—
Diluted	<b>36,255</b>	36,259	—	<b>36,255</b>	36,288	—

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.

	June 30, 2022	December 31, 2021	△%
Total assets (\$000s)	<b>736,927</b>	735,668	—
Equity at historical cost (\$000s) <sup>1</sup>	<b>288,196</b>	288,234	—
Indebtedness (\$000s) <sup>2</sup>	<b>440,181</b>	446,769	(1)
Weighted average interest rate on debt	<b>3.81 %</b>	3.62 %	5
Debt to GBV, excluding convertible debentures (maximum threshold - 60%) <sup>3</sup>	<b>48 %</b>	49 %	(2)
Debt to GBV (maximum threshold - 65%) <sup>3</sup>	<b>57 %</b>	58 %	(2)
Finance costs coverage ratio <sup>4</sup>	<b>2.36</b>	2.45	(4)
Debt service coverage ratio <sup>5</sup>	<b>1.91</b>	2.06	(7)

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.

Operational Highlights	June 30, 2022	December 31, 2021	△%
Number of properties	<b>39</b>	39	–
GLA (sf)	<b>3,216,141</b>	3,216,175	–
Occupancy (weighted by GLA)	<b>88.2 %</b>	87.1 %	1
Retention (weighted by GLA)	<b>88.6 %</b>	81.7 %	8
Weighted average remaining lease term (years)	<b>4.20</b>	3.86	9
Weighted average base rent (per sf)	<b>\$16.49</b>	\$16.73	(1)

### 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 Q3-2022 quarterly report to unitholders. The REIT's consolidated financial statements and management's discussion and analysis for the three-months ended September 30, 2022 can be found on the REIT's website at [www.MelcorREIT.ca](http://www.MelcorREIT.ca) or on SEDAR ([www.sedar.com](http://www.sedar.com)).

### Conference Call & Webcast

Unitholders and interested parties are invited to join management on a conference call to be held November 4, 2022 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/12025>. 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 3.22 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](http://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, 2022, which is available on SEDAR at [www.sedar.com](http://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.

(\$000s)	Three months ended September 30			Nine months ended September 30		
	2022	2021	△%	2022	2021	△%
Net income (loss) for the period	<b>19,151</b>	7,470		<b>30,672</b>	(21,588)	
Fair value adjustment on Class B LP Units	<b>(7,095)</b>	(807)		<b>(16,770)</b>	32,573	
Fair value adjustment on investment properties	<b>(6,337)</b>	(2,535)		<b>2,865</b>	(2,665)	
Fair value adjustment on derivative instruments	<b>(2,949)</b>	(460)		<b>(7,036)</b>	3,782	
<b>Income before fair value adjustment and taxes</b>	<b>2,770</b>	3,668	(24)	<b>9,731</b>	12,102	(20)

**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 (\$000s)	Three months ended September 30			Nine months ended September 30		
	2022	2021	△%	2022	2021	△%
Net income (loss) for the period	19,151	7,470		30,672	(21,588)	
Net finance costs	4,380	5,996		13,314	22,686	
Fair value adjustment on Class B LP Units	(7,095)	(807)		(16,770)	32,573	
Fair value adjustment on investment properties	(6,337)	(2,535)		2,865	(2,665)	
General and administrative expenses	783	717		2,381	2,215	
Amortization of operating lease incentives	956	1,116		2,763	2,967	
Straight-line rent adjustment	(225)	(42)		(366)	(64)	
<b>NOI</b>	<b>11,613</b>	<b>11,915</b>	<b>(3)</b>	<b>34,859</b>	<b>36,124</b>	<b>(4)</b>

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

Same-asset Reconciliation (\$000s)	Three months ended September 30			Nine months ended September 30		
	2022	2021	△%	2022	2021	△%
Same-asset NOI <sup>1</sup>	11,613	11,915	(3)	34,859	36,124	(4)
NOI <sup>1</sup>	11,613	11,915	(3)	34,859	36,124	(4)
Amortization of tenant incentives	(956)	(1,116)		(2,763)	(2,967)	
SLR adjustment	225	42		366	64	
<b>Net rental income</b>	<b>10,882</b>	<b>10,841</b>	<b>–</b>	<b>32,462</b>	<b>33,221</b>	<b>(2)</b>

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

FFO & AFFO Reconciliation (\$000s, except per unit amounts)	Three months ended September 30			Nine months ended September 30		
	2022	2021	△%	2022	2021	△%
Net income (loss) for the period	19,151	7,470		30,672	(21,588)	
Add / (deduct)						
Fair value adjustment on investment properties	(6,337)	(2,535)		2,865	(2,665)	
Fair value adjustment on Class B LP Units	(7,095)	(807)		(16,770)	32,573	
Amortization of tenant incentives	956	1,116		2,763	2,967	
Distributions on Class B LP Units	2,580	1,855		6,450	5,241	
Fair value adjustment on derivative instruments	(2,949)	(460)		(7,036)	3,782	
<b>FFO<sup>1</sup></b>	<b>6,306</b>	<b>6,639</b>	<b>(5)</b>	<b>18,944</b>	<b>20,310</b>	<b>(7)</b>
Deduct						
Straight-line rent adjustments	(225)	(42)		(366)	(64)	
Normalized capital expenditures	(588)	(588)		(1,764)	(1,762)	
Normalized tenant incentives and leasing commissions	(1,029)	(1,027)		(3,087)	(3,087)	
<b>AFFO<sup>1</sup></b>	<b>4,464</b>	<b>4,982</b>	<b>(10)</b>	<b>13,727</b>	<b>15,397</b>	<b>(11)</b>
<b>FFO/Unit<sup>2</sup></b>	<b>\$0.22</b>	<b>\$0.23</b>		<b>\$0.65</b>	<b>\$0.70</b>	
<b>AFFO/Unit<sup>2</sup></b>	<b>\$0.15</b>	<b>\$0.17</b>		<b>\$0.47</b>	<b>\$0.53</b>	
Weighted average number of units (000s): <sup>3</sup>	<b>29,088</b>	<b>29,090</b>	<b>–</b>	<b>29,089</b>	<b>29,120</b>	<b>–</b>

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.

ACFO Reconciliation (\$000s)	Three months ended September 30			Nine months ended September 30		
	2022	2021	△%	2022	2021	△%
Cash flows from operations	819	4,540	(82)	7,542	12,332	(39)
Distributions on Class B LP Units	2,580	1,855		6,450	5,241	
Actual payment of tenant incentives and direct leasing costs	2,798	1,247		6,719	4,639	
Changes in operating assets and liabilities	375	(537)		(692)	(561)	
Amortization of deferred financing fees	(332)	(359)		(974)	(966)	
Normalized capital expenditures	(588)	(588)		(1,764)	(1,762)	
Normalized tenant incentives and leasing commissions	(1,029)	(1,027)		(3,087)	(3,087)	
<b>ACFO<sup>1</sup></b>	<b>4,623</b>	5,131	(10)	<b>14,194</b>	15,836	(10)
<b>ACFO/Unit<sup>2</sup></b>	<b>\$ 0.16</b>	\$ 0.18		<b>\$0.49</b>	\$0.54	
Weighted average number of units (000s) <sup>3</sup>	<b>29,088</b>	29,090	–	<b>29,089</b>	29,120	–

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.

### 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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