Management's Discussion & Analysis

November 2, 2023

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 September 30, 2023 and the MD&A and consolidated financial statements and related notes for the year ended December 31, 2022. The discussion outlines strategies and provides analysis of our financial performance for the third quarter of 2023.

The underlying financial statements in this MD&A, including 2022 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 November 2, 2023. Disclosure contained in this MD&A is current to November 2, 2023, 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 www.sedarplus.ca.

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.

Caution Regarding 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 2023 and beyond, future leasing, acquisitions, disposals 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 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 2022 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

The REIT has an established and diversified portfolio in western Canada. We own 38 income-producing office, retail and industrial properties representing 3.15 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.

As at November 2, 2023, Melcor, through an affiliate, holds an approximate 55.4% effective interest in the REIT through ownership of all Class B LP Units. Furthermore, Melton Holdings Ltd. owns approximately 51.2% of the outstanding shares of Melcor and pursuant to IAS 24, Related Party Disclosures, is the ultimate controlling shareholder.

Melcor, a real estate company founded in 1923, had a rich history of growth and performance prior to the formation of the REIT. Our strategy is to grow and improve our asset base, and our objective is to provide stable monthly cash distributions to unitholders. Our growth strategy is contingent on favourable capital market conditions, which have proven unfavourable over the past several years. We have maintained a stable distribution of $0.04 per unit per month since August 2021.

We continue to seek out suitable acquisitions to expand our asset base as conditions allow. Our strategy is to focus on building value within our portfolio. No acquisitions have been completed since 2019 due to challenges in the market related to unit price and capital market accessibility, inflation and rising interest rates.

There are two key components to improving our existing assets – property management and asset enhancement. The goals of our property management and asset enhancement programs are to maximize occupancy, maximize tenant retention and increase rental income.

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. 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 is at 92% year-to-date in 2023.

We enjoy strong, long-term relationships with our clients, some of whom have been with Melcor for over 30 years.

Asset Enhancement

We continually improve our assets with value-adding investments to enhance the quality of our properties, which leads to higher occupancy and rental rates. These upgrades typically focus on increasing operating efficiency, property attractiveness, functionality and desirability. We use our intimate knowledge of the buildings we operate to support capital investment decisions, optimize operating efficiency and continuously improve our buildings for enhanced client satisfaction.

Our buildings undergo annual assessments to identify preventative maintenance and capital investment requirements, and we continue to monitor and log all equipment and maintenance activity. Many of our continuous improvement initiatives focus on sustainability and energy reduction strategies to ensure our buildings are working towards becoming more energy efficient. As we upgrade and replace equipment, we do so with technology that promotes energy efficiency. We also engage specialists to monitor and analyze our energy usage to identify ways it can be improved.

In 2021, Melcor joined the Edmonton Corporate Climate Leaders Program. We completed benchmarking our energy usage at Edmonton-based office buildings in 2022 and are working on setting appropriate targets for our business.

Acquisitions & Dispositions

We continually review our asset portfolio to identify opportunities to strategically acquire or dispose assets. We remain focused on pruning non-core assets with a view to mitigate against market and tenancy exposures and maximize return on investment.

We sold Kelowna Business Center ("KBC") on February 1, 2023. This property was a 71,600 sf office building with main floor retail on a 2.8 acre site in Kelowna and sold for gross proceeds of $19.50 million ($272.24/sf), resulting in net cash proceeds of $9.00 million after mortgage repayment. This asset has been owned by the REIT since 2013 and prior to that had been owned by Melcor Developments since 2006. 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.

We have reclassified three properties as held for sale in 2023. These are all retail properties held in Regina, SK and have a combined 198,000 sf. These assets were listed for sale due to their geographic location and were part of a strategic decision to focus on our Alberta markets and on debt repayment. Net cash from the sale of these assets is expected to be used to pay down the revolving credit facility.

Glossary of Acronyms

Common acronyms used throughout our MD&A are defined here.

Common Acronyms			
ACFO	adjusted cash flows from operations	**IFRS**	international financial reporting standards
AFFO	adjusted funds from operations	**KPI**	key performance indicators
FFO	funds from operations	**NCIB**	normal course issuer bid
DOT	declaration of trust	**NOI**	net operating income
GAAP	generally accepted accounting principles	**sf**	square feet
GBV	gross book value	**SLR**	straight-line rent
GHG	greenhouse gas	**WABR**	weighted average base rent
GLA	gross leasable area	**nm**	not meaningful

Please refer to Non-GAAP and Non-Standard Measures on page 20 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.

KPI's:

	Three months ended September 30			Nine months ended September 30		
($000's)	**2023**	2022	△%	**2023**	2022	△%
NOI[1]	**11,894**	11,613	2	**35,105**	34,859	1
Same-asset NOI[1]	**11,168**	10,729	4	**33,088**	32,377	2
FFO[1]	**6,034**	6,306	(4)	**18,215**	18,944	(4)
AFFO[1]	**3,871**	4,464	(13)	**11,611**	13,727	(15)
ACFO[1]	**3,989**	4,623	(14)	**11,963**	14,194	(16)
Rental revenue	**18,285**	18,189	1	**55,398**	55,308	–
Income before fair value adjustments[1]	**3,131**	2,770	13	**9,391**	9,731	(3)
Fair value adjustment on investment properties	**1,051**	6,337	nm	**(8,365)**	(2,865)	nm
Cash flows from operations	**3,827**	819	367	**8,796**	7,542	17
Distributions paid to unitholders	**1,556**	1,555	–	**4,667**	4,667	–
Distributions paid[2]	**$0.12**	$0.12	–	**$0.36**	$0.36	–

1. *Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.*
2. *Distributions have been paid out at $0.04 per unit per month since August 2021.*

Operational Highlights:

	September 30, 2023	December 31, 2022	△%
Number of properties	**38**	39	(3)
GLA (sf)	**3,148,417**	3,216,141	(2)
Occupancy (weighted by GLA)	**88.9 %**	88.1 %	1
Retention (weighted by GLA)	**92.1 %**	86.1 %	7
Weighted average remaining lease term (years)	**4.33**	4.25	2
Weighted average base rent (per sf)	**$16.93**	$16.55	2

Balance Sheet Highlights:

	September 30, 2023	December 31, 2022	△%
Total assets ($000s)	**709,494**	730,769	(3)
Equity at historical cost ($000s)[1]	**288,196**	288,196	–
Indebtedness ($000s)[2]	**420,074**	440,688	(5)
Weighted average interest rate on debt	**4.50 %**	4.01 %	12
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]	**2.24**	2.32	(3)
Debt service coverage ratio[5]	**1.94**	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 the Liquidity & Capital Resources section of the MD&A, starting on page 15 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 the Liquidity & Capital Resources section of the MD&A, starting on page 15 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. 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.*

Per Unit Metrics:

	Three months ended September 30			Nine months ended September 30		
	2023	2022	△%	**2023**	2022	△%
Net income (loss)						
Basic	**$0.55**	$1.48		**$1.38**	$2.37	
Diluted	**$0.22**	$0.44		**$0.27**	$0.66	
Weighted average number of units for net income (loss) (000s):[1]						
Basic	**12,963**	12,963	–	**12,963**	12,964	–
Diluted	**34,257**	36,255	(6)	**29,088**	36,255	(20)
FFO						
Basic[2]	**$0.21**	$0.22		**$0.63**	$0.65	
Diluted[2]	**$0.20**	$0.21		**$0.60**	$0.62	
Payout ratio[2]	**58 %**	55 %		**57%**	55%	
AFFO						
Basic [2]	**$0.13**	$0.15		**$0.40**	$0.47	
Payout ratio[2]	**90 %**	78 %		**90%**	76%	
ACFO						
Basic[2]	**$0.14**	$0.16		**$0.41**	$0.49	
Payout ratio[2]	**88 %**	76 %		**88%**	74%	
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.*

HIGHLIGHTS:

Our portfolio produced stable results in the third quarter despite rising costs and inflationary pressures in all our markets. We are focussed on retaining current tenants and leasing up vacant space to help combat these rising costs. We completed 89,622 sf of new leasing and 458,229 sf in renewals and holdovers year-to-date for a 92% retention rate. Occupancy remains strong at 89% with commitment on an additional 67,930 sf bringing committed occupancy up to 91%. Weighted average base rents (WABR) improved 2% since year-end despite challenging market conditions and our weighted average lease term remaining increased 2% to 4.33 years.

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 as at September 30, 2023 and 60% of net rental income for the nine months ended September 30, 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 are actively seeking strategic opportunities, aiming to focus on our core assets. In Q1-2023, we sold the Kelowna Business Centre for $19.50 million, benefiting our investors and reducing our line of credit. During the year, we also reclassified three retail properties in Saskatchewan as assets held for sale as we shift focus to our Alberta markets.

In the quarter rental revenue was up 1% and has remained stable year-to-date. Net rental income was consistent over Q3-2022 and has decreased 1% year-to-date, due to swings in amortization of tenant incentives compared to 2022. We saw a 2% increase in NOI in the quarter and a 1% increase year-to-date. Our same-asset NOI calculations, which normalize out Kelowna Business Center, which was sold in 2023, as well as assets held for sale, is up 4% in the quarter and 2% year-to-date.

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 13% in the quarter and down 15% year-to-date, as well as adjusted cash from operations which was down 14% in the quarter and 16% 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.

We remain focused on navigating the challenges associated with inflation, such as rising operating costs and leasing costs and higher interest costs as mortgages come up for renewal in a higher interest rate environment. We expect to see continuing pressure on operating cash flow resulting from reductions in office lease rates, higher tenant incentives, increasing operating costs and continuing higher financing costs.

FINANCIAL HIGHLIGHTS

Financial highlights of our performance are summarized below.

Third quarter:

- Revenue was up 1% at $18.29 million (Q3-2022: $18.19 million)
- NOI was up 2% at $11.89 million (Q3-2022: $11.61 million)
- FFO was down 4% to $6.03 million or $0.21 per unit (Q3-2022: $6.31 million or $0.22 per unit)
- ACFO was down 14% at $3.99 million or $0.14 per unit (Q3-2022: $4.62 million or $0.16 per unit) for a quarterly payout ratio of 88% based on ACFO (Q3-2022: 76%)

Year-to-date:

- Revenue remained stable at $55.40 million (2022: $55.31 million)
- NOI remained stable at $35.11 million (2022: $34.86 million)
- FFO was down 4% at $18.22 million or $0.63 per unit (2022: $18.94 million or $0.65 per unit)
- ACFO was down 16% at $11.96 million or $0.41 per unit (2022: $14.19 million or $0.49 per unit) for a year-to-date payout ratio of 88% based on ACFO (2022: 74%)

As at September 30, 2023 we had $3.26 million in cash and $9.73 million in undrawn liquidity under our revolving credit facility. We have completed financing on four properties including the renewal of three properties for a combined total of $42.21 million (at JV%) and the payout of one mortgage using our revolving credit facility for $4.00 million. In the year we also 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 periods 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 547,851 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 67,930 sf in new deals which would bring committed occupancy up to 91%. Leasing efforts yielded a WABR increase of 2% across the portfolio in Q3-2023, 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 88% (88% year-to-date) based on ACFO and 58% (57% year-to-date) based on FFO. Distributions to unit holders and distributions on Class B LP Units are recorded in the period they are declared to unitholders. In August 2022, REIT declared distributions up to October 2022, and thus the comparative quarter and year-to-date finance costs and distributions to unitholders include four and ten months of distributions. The current period would only include three and nine months in the quarter and year-to-date. This additional month of distributions is non-cash and adjusted for in FFO, AFFO and ACFO calculations.

SUBSEQUENT EVENT

On October 16, 2023 we declared a distribution of $0.04 per unit payable on November 15, 2023 to unitholders on record on October 31, 2023.

Consolidated Revenue & Net Operating Income

	Three months ended September 30			Nine months ended September 30		
($000s)	**2023**	2022	△%	**2023**	2022	△%
Base rent	**12,105**	12,018	1	**36,074**	36,063	–
Recoveries	**6,503**	6,393	2	**20,477**	19,885	3
Other	**657**	509	29	**1,787**	1,757	2
Amortization of tenant incentives	**(968)**	(956)	1	**(3,019)**	(2,763)	9
SLR adjustment	**(12)**	225	(105)	**79**	366	(78)
Rental revenue	**18,285**	18,189	1	**55,398**	55,308	–
Operating expenses	**3,479**	3,274	6	**10,917**	10,610	3
Utilities and property taxes	**3,892**	4,033	(3)	**12,316**	12,236	1
Direct operating expenses	**7,371**	7,307	1	**23,233**	22,846	2
Net rental income	**10,914**	10,882	–	**32,165**	32,462	(1)
NOI[1]	**11,894**	11,613	2	**35,105**	34,859	1
Same-asset NOI[1]	**11,168**	10,729	4	**33,088**	32,377	2
Operating margin[2]	**60 %**	60 %	–	**58 %**	59 %	(2)

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% in Q3-2022, and is stable year-to-date. Base rents were also up 1% in the quarter and remained stable year-to-date, despite the sale of Kelowna Business Center in Q1-2023. This is due to increases seen in WABR since the comparative period, and improved occupancy.

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 2% over Q3-2022 and is up 3% year-to-date. Direct operating expenses were up at 1% over Q3-2022 and up 2% year-to-date. Our recovery ratio can vary quarter over quarter due to variability of expenditures within our portfolio, and the timing of expenses 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 and termination fees as well as other miscellaneous revenue that is ancillary to our business and fluctuates from period to period.

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 down 3% in the quarter, and are up 1% year-to-date. Utility costs, including heating and power costs, have seen significant increases over the last 12 months. Weather conditions in the regions where our assets are located can also impact both heating and air conditioning usage, which can lead to large swings in the volume of natural gas and electricity used. Property tax increases were the result of increased mill rates over the prior year.

Operating expenses can vary quarter over quarter due to the timing of maintenance projects. Overall, we have have seen increases in costs as a result of inflationary pressures. In Q3-2023, operating expenses were up 6% and have increased 3% year-to-date.

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.

Same-asset NOI in the current and comparative periods exclude Kelowna Business Center, located in Kelowna, BC which sold on February 1, 2023) and the three retail properties, located in Regina, SK, classified as held for sale in the second quarter. Year-to-date, NOI is up 1% and same-asset NOI is up 2%. In the quarter, NOI was up 2% and same-asset NOI was up 4%.

Net rental income in the quarter was consistent with Q3-2022, and year-to-date was down 1%. NOI in the period was up 2% over Q3-2022, and 1% year-to-date. On a same-asset basis, NOI was up 4% in the quarter and 2% year-to-date. We typically expect period and year-to-date NOI to have a direct relationship, but due to the timing of direct expenditures in the period this relationship may vary quarter-over-quarter.

The calculation of same-asset NOI is as follows:

	Three months ended September 30			Nine months ended September 30		
($000s)	**2023**	2022	△%	**2023**	2022	△%
Same-asset NOI[1]	**11,168**	10,729	4	**33,088**	32,377	2
Disposals / Assets Held for Sale	**726**	884		**2,017**	2,482	
NOI[1]	**11,894**	11,613	2	**35,105**	34,859	1
Amortization of tenant incentives	**(968)**	(956)		**(3,019)**	(2,763)	
SLR adjustment	**(12)**	225		**79**	366	
Net rental income	**10,914**	10,882	–	**32,165**	32,462	(1)

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

The following table summarizes leasing activity for the 2023 year-to-date :

	Square feet	Weighted average base rent (per sf)	Occupancy %
Opening occupancy	**2,832,467**	**$16.55**	**88.1 %**
Expiring leases	(497,639)	$12.22	
Other terminations	(18,387)	$18.62	
Renewals/holdovers	458,229	$11.86	
New leasing	89,622	$12.84	
Lease amendments	5,379	$–	
Investment property sold	(71,629)	$14.22	
Closing occupancy	**2,798,042**	**$16.93**	**88.9 %**

To date, we have signed 547,851 sf of new and renewed leasing (including holdovers). In 2023, 615,485 sf of our portfolio was up for renewal, including month-to-month tenants.

As at September 30, 2023, we have retained 92% (458,229 sf) of expiring leases and have received commitment on an additional 67,930 sf of future renewals representing a committed occupancy of 91%. In the year, we completed 89,622 sf in new leases. Kelowna Business Centre, a 71,629 sf office asset was removed from both total GLA and closing occupancy upon sale in Q1-2023.

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

	Sep 30, 2023	Sep 30, 2022	△%	Dec 31, 2022	△%
Weighted average base rent (per sf)	**$16.93**	$16.49	3	$16.55	2
Weighted average remaining lease term	**4.33**	4.20	3	4.25	2
GLA	**3,148,417**	3,216,141	(2)	3,216,141	(2)
Occupancy %	**88.9 %**	88.2 %	1	88.1 %	1
Retention %	**92.1 %**	88.6 %	4	86.1 %	7

Q3-2023 occupancy was 89%, up 1% over the comparative period (Q3-2022: 88%) and year-end (Q4-2022: 88%). WABR increased by $0.44 over Q3-2022 to $16.93 and by $0.38 over year-end (Q4-2022: $16.55). 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 September 30, 2023 our portfolio included interests in 38 retail, office and industrial income-producing properties located in western Canada for a total of 3,148,417 sf of GLA, and a land lease community.

The following table summarizes the composition of our properties at September 30, 2023 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	1,396,486	44.4 %	414,613	19,371	60.2 %
Office	20	1,543,840	49.0 %	226,835	9,810	30.5 %
Industrial	3	208,091	6.6 %	39,696	2,209	6.9 %
Land Lease Community	1	308	n/a	16,800	775	2.4 %
	38	3,148,417	100.0 %	697,944	32,165	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 nine months ended September 30:

	Retail		Office		Industrial		Land Lease Community	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
Three months ended September 30 ($000s)								
Rental revenue	**9,435**	9,453	**7,502**	7,446	**982**	938	**366**	352
Net rental income	**6,506**	6,481	**3,418**	3,449	**735**	720	**255**	232
Same-asset NOI[1]	**6,071**	5,919	**4,041**	3,792	**801**	786	**255**	232
Nine months ended September 30 ($000s)								
Rental revenue	**28,770**	28,497	**22,626**	22,992	**2,923**	2,776	**1,079**	1,043
Net rental income	**19,371**	19,223	**9,810**	10,368	**2,209**	2,125	**775**	746
Same-asset NOI[1]	**18,091**	17,602	**11,828**	11,672	**2,394**	2,355	**775**	746
As at September 30								
WABR (sf)	**$20.34**	$19.62	**$13.42**	$13.31	**$15.19**	$14.92	**n/a**	n/a
Occupancy	**95.9 %**	96.7 %	**81.0 %**	79.3 %	**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 remained stable over Q3-2022, and was up 1% year-to-date due to higher base rents and recovery revenue, which were partially offset by swings in other revenue, amortization of tenant incentives and straight-line rent adjustments, which can vary significantly period over period.

Net rental income remained stable over Q3-2022 and was up 1% year-to-date as a result of the above. Same-asset NOI was up 3% in both the quarter and year-to-date. Same-asset NOI excludes assets sold or held for sale in the current and comparative periods. We have therefore excluded three retail properties located in Regina, SK, which have been reclassified as held for sale.

WABR increased by $0.26 since Q3-2022, and occupancy decreased slightly to 96% (Q3-2022: 97%). Retention on our retail portfolio has been strong at 94% year-to-date, including renewals and holdovers.

Office – our 20 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.

In the quarter, rental revenue was up 1% and net rental income was down 1% on our office assets. We sold Kelowna Business Center during Q1-2022 which impacts overall results in this region. On a same-asset basis, NOI was up 7% in the quarter, and up 1% year-to-date.

Occupancy has increased 2% since Q3-2022 to 81% and remained stable over year-end (Q4-2022: 81%). Our focus remains on leasing vacant space in the competitive Edmonton market where the majority of our office assets are located. We retained 91% or 282,173 sf of space that was up for renewal in the year including both renewals and holdovers. We have also signed 47,189 sf in new leases to date in 2023.

WABR increased $0.11 over Q3-2022 to $13.42 sf and is up $0.12 sf since year-end (Q4-2022: $13.30). Although a full-return to the office has been slower then anticipated, we remain optimistic about the future of office, potentially in reimagined forms to meet current trends.

Industrial – our 3 industrial properties include both single- and multi-tenant buildings. These assets remain fully occupied to date and continue to provide the REIT stable results.

Rental revenue was up 5% in the quarter and year-to-date. WABR was up $0.27 compared to both Q3-2022 and year-end (Q4-2022: $14.92). Higher WABR results in higher base rents, which were up 1% year-to-date compared to 2022. Recovery revenue has increased 11% year-to-date which correlates with higher direct operating expenses (including both operating expenses, utilities and property taxes) which were up 10% year-to-date. Net rental income has increased in both the quarter and year to date, up 2% and 4% respectively compared to Q3-2022.

Land Lease Community – we have one land lease community in Calgary, AB, consisting of 308 pad lots. It remains 100% occupied at September 30, 2023. Our land lease community continues to provide stable rental revenue and NOI.

Regional Analysis

The following table summarizes the composition of our properties at September 30, 2023 by geographic region:

Region	Count	GLA (sf)	% of Portfolio (GLA)	Fair Value of Investment Properties[1]	Net Rental Income	% of Net Rental Income
Northern AB	22	1,961,726	62.0 %	436,690	18,420	57.2 %
Southern AB	10	889,283	28.0 %	211,979	11,181	34.8 %
Saskatchewan & BC	6	297,408	10.0 %	49,275	2,564	8.0 %
	38	3,148,417	100.0 %	697,944	32,165	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 nine months ended September 30:

	Northern AB		Southern AB		Saskatchewan & BC	
	2023	2022	**2023**	2022	**2023**	2022
Three months ended September 30 ($000s)						
Rental revenue	**10,798**	10,564	**5,918**	5,728	**1,569**	1,897
Net rental income	**6,280**	6,022	**3,692**	3,788	**942**	1,072
Same-asset NOI[1]	**6,962**	6,488	**3,908**	3,970	**298**	271
Nine months ended September 30 ($000s)						
Rental revenue	**33,059**	32,516	**17,506**	17,106	**4,833**	5,686
Net rental income	**18,420**	18,229	**11,181**	11,193	**2,564**	3,040
Same-asset NOI[1]	**20,285**	19,738	**11,973**	11,789	**830**	848
As at September 30						
WABR (sf)	**$17.21**	$16.93	**$17.53**	$17.07	**$13.41**	$12.91
Occupancy	**86.5 %**	85.4 %	**92.8 %**	92.6 %	**92.7 %**	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 was up 2% over Q3-2022 and year-to-date. Net rental income was up 4% over Q3-2022 and up 1% year-to-date.

Recovery revenue is driven by both occupancy as well as direct operating costs, as we can only recover costs on occupied space. Recovery revenue was up 5% compared to Q3-2022 as we have seen higher direct operating costs in 2023 compared to 2022. This was offset by swings in other revenue, straight-line rent adjustments and amortization of tenant incentives.

Occupancy has increased slightly over Q3-2022 and year-end (Q4-2022: 85%) to 87%. WABR remained is up slightly to $17.21 sf over Q3-2022 and year-end (Q4-2022: $16.82).

Retention in the quarter was 88%, with 223,305 sf of space being renewed; which includes both renewals and holdovers. We also signed 74,061 sf in new leasing in the year in the region.

Southern Alberta - our Southern Alberta assets are located throughout the greater Calgary area, including Chestermere and Airdrie, and in Lethbridge. Rental revenue was up 3% and net rental income was down 3% in the quarter. Year-to-date, rental revenue was up 2% and net rental income was stable over 2022. Occupancy has remained stable at 93% compared to both Q3-2022 and year-end (Q4-2022: 92%). WABR is up $0.46 sf over Q3-2022, and $0.40 over year-end (Q4-2022: $17.31).

Saskatchewan and British Columbia - these assets are located in Regina, SK and Kelowna, BC. Rental revenue was down $0.85 million or 17% which directly correlates to the sale of Kelowna Business Center (located in British Columbia) on February 1, 2023. WABR increased $0.50 to $13.41 sf over Q3-2022 ($12.91 sf) and down $0.08 over year-end (2022 - $13.49 sf).

The same-asset NOI calculations excludes Kelowna Business Center (sold in Q1-2023) as well as three retail properties currently being held for sale, all located in Regina, Saskatchewan. On a same-asset basis, NOI was up 10% in the quarter and 2% year-to-date. The variance on the quarter and year-to-date same asset NOI is a direct result of increased performance of the remaining assets occupancy comparative to the 2022 period.

Occupancy increased slightly to 93% (Q3-2022: 92%) and is down slightly from year-end (Q4-2022: 94%). Kelowna Business Centre was sold during the quarter and had a 99% occupancy at the time of the sale.

General & Administrative Expense

	Three months ended September 30			Nine months ended September 30		
($000s)	**2023**	2022	△%	**2023**	2022	△%
Asset management fee	**472**	479	(1)	**1,418**	1,437	(1)
Professional fees	**119**	156	(24)	**328**	395	(17)
Public company costs	**86**	56	54	**258**	255	1
Other	**102**	92	11	**290**	294	(1)
General & administrative expense	**779**	783	(1)	**2,294**	2,381	(4)

General & administrative (G&A) expense was stable at $0.78 million in the quarter and down 4% or $0.09 million year-to-date. Asset management fees are paid quarterly to Melcor to manage the REIT assets. As the REIT sold an asset in Q1-2023, this fee decreased slightly compared to 2022. Our remaining G&A expense categories remain on budget, and fairly stable over the prior year. These expenses tend to vary quarter over quarter depending on when certain fees are incurred. Our upper target for G&A is 5% of rental revenue. In Q3-2023, G&A was 4% of revenue (Q3-2022: 4%).

Finance Costs

	Three months ended September 30			Nine months ended September 30		
($000s)	**2023**	2022	△%	**2023**	2022	△%
Interest on mortgages payable and revolving credit facility	3,819	3,001	27	10,776	8,810	22
Interest on Class C LP Units	276	376	(27)	899	1,007	(11)
Interest on convertible debentures	587	888	(34)	1,760	2,664	(34)
Accretion on convertible debentures	118	159	(26)	352	467	(25)
Fair value adjustment on derivative instruments	(636)	(2,949)	(78)	(1,100)	(7,036)	nm
Amortization of deferred financing fees	285	332	(14)	934	974	(4)
Finance costs before distributions	4,449	1,807	146	13,621	6,886	98
Distributions on Class B LP Units	1,935	2,580	(25)	5,805	6,450	(10)
Finance costs	6,384	4,387	46	19,426	13,336	46

Finance costs before and after distributions are impacted by non-cash fair value adjustments on derivative financial instruments. In the quarter, we recorded fair value gains on these derivatives of $0.64 million compared to gains of $2.95 million in Q3-2022. Year-to-date, we have recorded gains of $1.10 million compared to gains of $7.04 million in the prior year, a swing of $5.94 million on total finance costs. Excluding these non-cash adjustments, finance costs were down 4% or $0.32 million at $7.02 million in Q3-2023 (Q3-2022: $7.34 million) and up 1% or $0.15 million to $20.53 million year-to-date (2022 year-to-date: $20.37 million).

Included in the fair value adjustment on derivative instruments is the mark to market on interest rate swaps adjustment related to certain floating rate mortgages as well as the revaluation of the conversion feature on our convertible debenture. The fair value is impacted by market forces, such as interest rates and unit price which are outside of management's control and are non cash items.

Interest on mortgages payable and our revolving credit facility was up $0.82 million in the quarter and $1.97 million year-to-date compared to 2022 due to both increased interest rates as well as higher borrowings. Our 2017 Debenture expired in December 2022 and was repaid using our credit facility, resulting in an increased draw of $22.98 million at the end of 2022. We used net proceeds from the Kelowna Business Centre sale to reduce borrowings on this facility in Q1-2023. In the year, a $4.00 million draw on the line was used to payout the Princeton Place mortgage. Net draws on the facility were $2.78 million in the quarter and $2.93 million since year-end.

Distributions remained stable at $0.04 per unit per month, and there has been no change in the total units outstanding since year-end. Distributions on Class B LP Units are recorded in the period they are declared to unitholders. In August 2022, we declared distributions up to October 2022, and thus the comparative quarter and year-to-date finance costs include four and ten months of distributions respectively. The current period only includes three and nine months in the quarter and year-to-date. These amount are adjusted for in the FFO, AFFO and ACFO calculations.

Rising interest rates over the last 12-24 months impact the interest paid on our variable rate credit facility, rates on our unhedged and variable rate mortgages, and the rate at which mortgages are being renewed.

As at September 30, 2023 the weighted average interest rate on our revolving credit facility, mortgages payable, Class C LP Units and convertible debentures was 4.50% (December 31, 2022 - 4.01%), slightly up due to the increase in borrowings on our credit facility since year-end and higher rates on mortgages that have come up for renewal. We expect to see our weighted average interest rate to continue to rise as mortgages come up for renewal in a higher interest rate environment and as we continue to draw on our credit facility. Interest on Class C LP units is down 27% in the quarter and 11% year-to-date as $14.26 million of our Class C mortgage was paid out in the year and we entered into a standard mortgage.

Income Taxes

As at September 30, 2023, 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.

	Three months ended September 30			Nine months ended September 30		
($000s, except per unit amounts)	**2023**	2022	△%	**2023**	2022	△%
Net income for the period	**7,075**	19,151		**17,929**	30,672	
Add / (deduct)						
Fair value adjustment on investment properties	**(1,051)**	(6,337)		**8,365**	2,865	
Fair value adjustment on Class B LP Units	**(2,257)**	(7,095)		**(15,803)**	(16,770)	
Amortization of tenant incentives	**968**	956		**3,019**	2,763	
Distributions on Class B LP Units	**1,935**	2,580		**5,805**	6,450	
Fair value adjustment on derivative instruments	**(636)**	(2,949)		**(1,100)**	(7,036)	
FFO[1]	**6,034**	6,306	(4)	**18,215**	18,944	(4)
Deduct						
Straight-line rent adjustments	**12**	(225)		**(79)**	(366)	
Normalized capital expenditures	**(750)**	(588)		**(2,250)**	(1,764)	
Normalized tenant incentives and leasing commissions	**(1,425)**	(1,029)		**(4,275)**	(3,087)	
AFFO[1]	**3,871**	4,464	(13)	**11,611**	13,727	(15)
FFO/Unit[2]	**$0.21**	$0.22		**$0.63**	$0.65	
AFFO/Unit[2]	**$0.13**	$0.15		**$0.40**	$0.47	
Weighted average number of units (000s):[3]	**29,088**	29,088	–	**29,088**	29,089	–

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.*

FFO can be calculated as well using the direct method, as outlined in the below table:

	Three months ended September 30			Nine months ended September 30		
($000s, except per unit amounts)	**2023**	2022	△%	**2023**	2022	△%
Base rent	**12,105**	12,018		**36,074**	36,063	
Recoveries	**6,503**	6,393		**20,477**	19,885	
Other revenue	**657**	509		**1,787**	1,757	
SLR adjustment	**(12)**	225		**79**	366	
Direct operating expenses	**(7,371)**	(7,307)		**(23,233)**	(22,846)	
General & administrative expense	**(779)**	(783)		**(2,294)**	(2,381)	
Interest on mortgages payable and revolving credit facility	**(3,819)**	(3,001)		**(10,776)**	(8,810)	
Interest on Class C LP Units	**(276)**	(376)		**(899)**	(1,007)	
Interest on convertible debentures	**(587)**	(888)		**(1,760)**	(2,664)	
Accretion on convertible debentures	**(118)**	(159)		**(352)**	(467)	
Amortization of deferred financing fees	**(285)**	(332)		**(934)**	(974)	
Interest income	**16**	7		**46**	22	
FFO[1]	**6,034**	**6,306**	(4)	**18,215**	**18,944**	(4)

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

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:

	Three months ended September 30			Nine months ended September 30		
($000s, except per unit amounts)	**2023**	2022	△%	**2023**	2022	△%
FFO[1]	**6,034**	6,306	(4)	**18,215**	18,944	(4)
Convertible debentures interest	**587**	888		**1,760**	2,664	
Amortization of deferred financing fees on convertible debentures	**117**	196		**347**	574	
Accretion on convertible debentures	**118**	159		**352**	467	
FFO - Diluted[1]	**6,856**	7,549	(9)	**20,674**	22,649	(9)
FFO - Diluted/Unit[2]	**$0.20**	$0.21		**$0.60**	$0.62	
Diluted weighted average number of units (000s):[3]	**34,257**	36,255	(6)	**34,257**	36,255	(6)

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. 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)	**Nine months ended September 30, 2023**	Year ended December 31, 2022
Actual capital expenditures	**2,586**	3,452
Normalized capital expenditures	**2,250**	2,514
Variance	**336**	938

Actual capital expenditures were higher than normalized capital expenditures by $0.34 million due to the timing of capital projects. As the construction season for many projects occurs spring through fall, we will often see fluctuations on capital spend quarter over quarter. We adjusted our normalized capital expenditures estimates at the end of 2022 as we have seen costs increase in the recent past and project higher future spend required to properly manage our assets to attract and retain tenants.

We have planned capital projects of $3.00 million for 2023 and have spent $2.59 million on capital projects to date. Our 2022 actual capital expenditure was $3.45 million.

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 and with higher tenant incentives carrying higher base rent (sometimes in future periods). 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)	**Nine months ended September 30, 2023**	Year ended December 31, 2022
Actual tenant incentives and direct leasing expenditures	**6,194**	8,663
Normalized tenant incentives and direct leasing expenditures	**4,275**	4,512
Variance	**1,919**	4,151

Tenant incentives and direct leasing costs trended above our normalized estimates. The timing and type of leasing activity and market conditions causes fluctuations in spending during the year.

Our 2022 actual tenant incentives and direct leasing expenditures was $8.66 million, and we have planned tenant incentives and direct leasing expenditures of $5.70 million for 2023. In the third quarter, we were able to successfully complete the early renewal of a 76,241 sf single-tenant space that was coming up for renewal in 2024. Associated with that renewal was a $2.00 million tenant incentives that have been accrued in the $6.19 million above. This unbudgeted renewal contributed to the variance of $1.92 million noted above. The work on this space is expected to be done in early-2024.

We adjusted our estimate for normalized tenant incentives and direct leasing costs at the end of 2022 as we have seen costs increase in the recent past and project increased future spend required to attract and retain tenants. Normalized tenant incentives and direct leasing expenditures look at trailing 5 year actual spend plus 5 year projected spend, and therefore will vary period over period depending on they type and size of leases signed.

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.

	Three months ended September 30			**Nine months ended September 30**		
($000s)	**2023**	2022	△%	**2023**	2022	△%
Cash flows from operations	**3,827**	819	367	**8,796**	7,542	17
Distributions on Class B LP Units	**1,935**	2,580		**5,805**	6,450	
Actual payment of tenant incentives and direct leasing costs	**1,357**	2,798		**4,358**	6,719	
Changes in operating assets and liabilities	**(670)**	375		**463**	(692)	
Amortization of deferred financing fees	**(285)**	(332)		**(934)**	(974)	
Normalized capital expenditures	**(750)**	(588)		**(2,250)**	(1,764)	
Normalized tenant incentives and leasing commissions	**(1,425)**	(1,029)		**(4,275)**	(3,087)	
ACFO[1]	**3,989**	4,623	(14)	**11,963**	14,194	(16)
ACFO/Unit[2]	**$0.14**	$0.16		**$0.41**	$0.49	
Weighted average number of units (000s)[3]	**29,088**	29,088	–	**29,088**	29,089	–

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. Monthly distributions to unitholders have been $0.04 per unit, unchanged since August 2021. Distributions paid to unitholders in Q3-2023 were $1.56 million for an ACFO payout ratio of 88% (Q3-2022: $1.56 million, ACFO payout ratio 76%).

We use ACFO in evaluating our ability to continue to fund distributions. The most similar IFRS measure is cash flow from operations. Swings in operating assets and liabilities was the largest contributing factor in the swing in ACFO and is reflective of higher tenant receivables at quarter, driven by year-end recovery charges to tenants, as well as the payment of accrued lease inducements at year-end.

Cash flow from operations before Class B LP Unit distributions paid less total distributions paid in the quarter was $2.27 million up $3.01 million from from cash outflows of $0.74 million in Q3-2022, and $4.13 million year-to-date, up $1.25 million from $2.88 million year-to-date.

	Three months ended September 30			Nine months ended September 30		
($000s)	**2023**	2022	△%	**2023**	2022	△%
Cash flows from operations	**3,827**	819	367	**8,796**	7,542	17
Distributions paid on Class B LP Units	**1,935**	1,935	–	**5,805**	5,805	–
Cash flow from operations before Class B LP Unit Distributions	**5,762**	2,754	109	**14,601**	13,347	9
Distributions paid to unitholders	**(1,556)**	(1,555)	–	**(4,667)**	(4,667)	–
Distributions paid on Class B LP Units	**(1,935)**	(1,935)	–	**(5,805)**	(5,805)	–
Total distributions paid	**(3,491)**	(3,490)	–	**(10,472)**	(10,472)	–
Cash flow from operations before Class B LP Unit distributions paid less total distributions paid	**2,271**	(736)	(409)	**4,129**	2,875	44
Total distributions paid as a % of cash flow from operations before Class B LP Unit distributions paid	**61 %**	127 %	(52)	**72 %**	78 %	(8)

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:

	Nine months ended September 30, 2023	Year ended December 31, 2022
Number of properties	**38**	39
Total GLA (sf)	**3,278,115**	3,346,240
GLA (REIT owned %) (sf)	**3,148,417**	3,216,141
Fair value of portfolio ($000s)[1]	**697,944**	700,182
Value per square foot	**$222**	$218
NOI ($000s)	**35,105**	46,319
Weighted average capitalization rate	**7.15 %**	7.08 %
Weighted average terminal capitalization rate	**7.20 %**	7.16 %
Weighted average discount rate	**8.09 %**	8.04 %

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

Investment properties were valued by Melcor's internal valuation team with the assistance of qualified independent external valuation professionals. To date in 2023 we have had eight (of 52 legal phases) properties valued by external independent valuation professionals, with a fair value of $161.10 million.

In Q3-2023 we recognized a fair value gain of $1.05 million and a fair value loss of $8.37 million year-to date (Q3-2022: gain of $6.34 million; 2022: loss of $2.87 million).

On February 1, 2023 we successfully closed the sale of a 72,000 sf office property located in Kelowna BC for net proceeds of $19.50 million. This asset was purchased by Melcor Development in 2006 and was part of the initial vend-in on formation of Melcor REIT in 2013.

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)	**Nine months ended September 30, 2023**	**Nine months ended September 30, 2022**	Year ended December 31, 2022
Northern Alberta	**1,778**	**2,027**	(8,940)
Southern Alberta	**(8,721)**	**(4,967)**	(7,362)
Saskatchewan & British Columbia	**(1,422)**	**75**	4,307
	(8,365)	**(2,865)**	(11,995)

The breakdown of our fair value adjustment on investment properties by property type is as follows:

($000s)	**Nine months ended September 30, 2023**	**Nine months ended September 30, 2022**	Year ended December 31, 2022
Retail	**932**	**8,035**	5,282
Office	**(9,443)**	**(13,138)**	(19,774)
Industrial	**184**	**1,650**	1,911
Land Lease Community	**(38)**	**588**	586
	(8,365)	**(2,865)**	(11,995)

Our valuation program requires the revaluation of each legal phase every two years or as market conditions dictate. Our entire portfolio was revalued in 2020, triggering an anomalous bump in properties due for revaluation in 2022. We are proactively working to schedule portfolio revaluations so that they are more evenly distributed.

To date in 2023, we have had eight properties revalued contributing to the $8.37 million fair value loss. 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. Straight-line rent adjustments also impact fair value in the period in which they are incurred.

Fair values are most sensitive to changes in capitalization rates.

	September 30, 2023			December 31, 2022		
	Min	**Max**	**Weighted Average**	Min	Max	Weighted Average
Capitalization rate	**5.50%**	**10.00%**	**7.15%**	5.50%	10.00%	7.08%
Terminal capitalization rate	**6.00%**	**8.75%**	**7.20%**	6.00%	8.75%	7.16%
Discount rate	**6.75%**	**9.75%**	**8.09%**	6.25%	9.75%	8.04%

A capitalization rate increase of 50 basis points (+0.5%) would decrease the fair value of investment properties by $45.80 million (December 31, 2022 - $47.30 million) while a 50 basis points decrease (-0.5%) would increase fair value by $52.70 million (December 31, 2022 - $54.50 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:

	Three months ended September 30			Nine months ended September 30		
($000s)	**2023**	2022	$△	**2023**	2022	$△
Cash from operating activities	**3,827**	819	3,008	**8,796**	7,542	1,254
Cash from (used in) investing activities	**(1,905)**	(782)	(1,123)	**16,439**	(1,699)	18,138
Cash used in financing activities	**(1,844)**	(1,877)	33	**(25,281)**	(10,387)	(14,894)
Increase (decrease) in cash and cash equivalents	**78**	(1,840)	1,918	**(46)**	(4,544)	4,498
Cash and cash equivalents, beginning of the period	**3,180**	4,551	(1,371)	**3,304**	7,255	(3,951)
Cash and cash equivalents, end of the period	**3,258**	2,711	547	**3,258**	2,711	547

Operating activities

Cash from operating activities was up $3.01 million in the quarter, and up $1.25 million year-to-date. Rent collections continue to remain strong. Changes in operating assets fluctuate period over period and contributed a increase of $0.67 million in the quarter and a reduction of $0.46 million year-to-date. Cash before adjustments for working capital and payments of tenant incentives and direct leasing costs was up $0.52 million in Q3-2023 and up $0.05 million year-to-date.

Distributions paid to our Class B LP unitholders have remained stable year over year, as we have held our distribution stable at $0.04 per unit per month since mid-2021. Interest on mortgages and our revolving credit facility was up $0.82 million due to rising interest rates, and increased borrowings on our credit facility, which has a prime based interest rate. This was partially offset by lower debenture interest as our 2017 Debenture matured in December 2022 and we used availability on our credit facility to repay that debt.

We continue to focus efforts on leasing, and in the past few years have seen some significant costs related to tenant incentives and direct leasing costs associated with leases. Tenant incentives and direct leasing cost investments was down $1.44 million to $1.36 million (Q3-2022: $2.80 million) in the quarter and down $2.36 million year-to-date to $4.36 million (2022: $6.72 million). We have estimated spending $5.70 million in 2023 on tenant inducements and leasing commissions, compared to spend of $8.66 million in 2022. We have completed 547,851 sf of new and renewed leasing resulting in occupancy of 89% at quarter-end. The timing of lease expiries impacts the level of spending on tenant incentives and direct leasing costs and fluctuates from period to period.

Investing activities

We have spent $1.91 million in the quarter and $2.59 million year-to-date on our scheduled maintenance program and other projects (Q3-2022 - $0.78 million; 2022 year-to-date: $1.70 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 anticipate spending $3.00 million in 2023 on planned capital projects. Asset enhancement investments fluctuate based on the nature and timing of projects undertaken and can be seasonal in nature.

On February 1, 2023 we closed on the sale of Kelowna Business Center, located in Kelowna BC, for net proceeds of $19.03 million (including $1.00 million of restricted cash held at year-end). These proceeds were used to pay off the mortgage on the property, with remaining cash of $9.03 million being used to reduce borrowings on our credit facility.

Financing activities

We have paid out two mortgages to date in 2023, for $12.66 million total which includes $8.73 million related to Kelowna Business Centre, which was paid out upon sale in Q1-2023, and $3.93 million related to Princeton Place, which was paid out using proceeds from the revolving credit facility in Q2-2023 with the property being added as security on the facility to improve the overall borrowing base. To date in 2023 we paid down $14.26 million of Class C debt using proceeds from a new mortgage of $12.74 million with the additional balance being repaid using availability on our revolving credit facility. Our overall credit facility saw a net increase of $2.78 million in the period and a net increase of $2.93 million since year-end.

We paid distributions to unitholders of $1.56 million in Q3-2023 (Q3-2022 - $1.56 million) and $4.67 million year-to-date (2022 - $4.67 million). Distributions have remained stable at $0.04 per unit per month in the current and comparative periods.

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 September 30, 2023 we had $3.26 million in cash and cash equivalents in addition to $9.73 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 50% as at September 30, 2023 (56% including convertible debentures).

As at September 30, 2023, our total capitalization was $708.27 million and is comprised of:

($000s)	September 30, 2023	December 31, 2022
Revolving credit facility[1]	**34,627**	31,697
Mortgages payable[1]	**317,419**	325,193
Class C LP Units	**22,028**	37,798
Indebtedness, excluding convertible debentures	**374,074**	394,688
Convertible debentures[2]	**46,000**	46,000
Indebtedness	**420,074**	440,688
Class B LP Units at historical cost[3]	**160,207**	160,207
Trust units, excluding transaction costs	**127,989**	127,989
Equity at historical cost	**288,196**	288,196
Total capitalization	**708,270**	728,884
Gross Book Value (GBV)[4]	**755,009**	766,457
Debt to GBV, excluding convertible debentures (maximum threshold - 60%)[5]	**50 %**	51 %
Debt to GBV (maximum threshold - 65%)[5]	**56 %**	57 %

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 September 30, 2023, 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:

		Contractual balance due, by year end:					
($000s)	Total	2023	2024	2025	2026	2027	Thereafter
Revolving credit facility	**34,627**	34,627	–	–	–	–	–
Mortgages payable	**317,419**	2,491	53,498	57,196	54,379	18,103	131,752
Class C LP Units	**22,028**	398	1,648	9,822	10,160	–	–
Convertible debentures	**46,000**	–	46,000	–	–	–	–
Total	**420,074**	**37,516**	**101,146**	**67,018**	**64,539**	**18,103**	**131,752**
% of portfolio	100 %	9 %	24 %	16 %	16 %	4 %	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.

In 2023, we had four mortgages up for renewal with a maturing principal balance of $46.12 million at an interest rate of 4.40%. Year-to-date we have renewed three properties including $34.41 million at a rate of 8.01% and $5.80 million (at JV%) at a rate of 6.97% in the quarter. We have also renewed one of these mortgages at a rate of 5.69% ($2.00 million) in Q1 2023 and paid out one mortgage in the amount of $4.00 million using funds from our revolving credit facility (Q2-2023).

In the year, we repaid $14.26 million from one of our Class C mortgages, using $12.74 million in funds from a new mortgage at a rate of 4.62% with the remaining balance repaid using our revolving credit facility.

The REIT continues to monitor its secured debts and proactively engage with lenders in regards to upcoming maturities.

We remain focused on ensuring that the REIT has the flexibility to enter the market if conditions become favourable to do so. Our 2017 Debentures matured in December 2022, and availability on our revolving credit facility was used to repay the outstanding balance on these units.

We have a revolving credit facility agreement with two western Canadian financial institutions. We amended this agreement on February 10, 2023 to increase our limit from $35.00 million to $50.00 million, available to use for general corporate purposes and acquisitions, including a $5.00 million swing line sub-facility. The available credit limit based on the carrying value of specific investment properties. 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 four 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, fixed via swap contract[1]	Variable	Weighted average interest rate	Weighted average term to maturity
Revolving credit facility	**34,627**	–	–	34,627	8.09 %	0.67
Mortgages payable	**317,419**	272,064	45,355	–	3.99 %	3.90
Class C LP Units	**22,028**	22,028	–	–	4.98 %	2.39
Convertible debentures	**46,000**	46,000	–	–	5.10 %	1.25
Total	**420,074**	**340,092**	**45,355**	**34,627**	**4.50 %**	**3.26**

1. *We have floating for fixed interest rate swaps which fix the interest rate on our variable rate mortgages for the term of the mortgages.*

The weighted average interest rate on our debts was 4.50% (December 31, 2022 - 4.01%).

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)	Nine months ended September 30, 2023	Year ended December 31, 2022
FFO	**18,215**	24,725
Principal repayments on Mortgages payable	7,856	10,792
Principal repayments on Class C LP Units	1,513	2,362
Principal repayments	**9,369**	13,154
Debt service coverage ratio[1]	**1.94**	1.88
FFO plus finance costs	32,936	43,443
Finance costs[2]	14,721	18,718
Finance costs coverage ratio[1]	**2.24**	2.32

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 and was not renewed.

The following table summarizes the trust units issued and the potentially diluted number of units outstanding as at September 30, 2023 and December 31, 2022:

Issued and fully paid units ($000s except unit amounts)	September 30, 2023		December 31, 2022	
	Units	$ Amount	Units	$ Amount
Balance, beginning of period[1]	**12,963,169**	**127,989**	12,966,993	128,027
Issuance of trust units	**–**	**–**	–	–
Repurchase of trust units	**–**	**–**	(3,824)	(38)
Balance, end of period[1]	**12,963,169**	**127,989**	12,963,169	127,989
Potentially dilutive securities				
Class B LP Units Historical Cost[2]	**16,125,147**	**160,207**	16,125,147	160,207
Convertible debentures[3]	**5,168,542**	**46,000**	5,168,542	46,000
Potentially diluted balance, end of period	**34,256,858**	**334,196**	34,256,858	334,196

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

	2023			2022				2021
($000s except per unit amount)	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	**18,285**	18,123	18,990	18,797	18,189	18,154	18,965	18,542
Net income (loss)[1]	**7,075**	7,198	3,656	(1,062)	19,151	18,059	(6,538)	5,301
NOI[4]	**11,894**	11,689	11,522	11,460	11,613	11,391	11,855	11,640
Funds from operations (FFO)[4]	**6,034**	6,173	6,008	5,781	6,306	6,108	6,530	6,371
Adjusted funds from operations (AFFO)[4]	**3,871**	4,081	3,659	3,521	4,464	4,352	4,911	4,608
Adjusted cash flows from operations (ACFO)[4]	**3,989**	4,198	3,776	3,679	4,623	4,506	5,767	7,675
Per unit metrics								
Basic earnings (loss) per unit	**$ 0.55**	$ 0.56	$ 0.28	$ (0.09)	$ 1.48	$ 1.39	$ (0.50)	$ 0.98
FFO (basic)[5]	**$ 0.21**	$ 0.21	$ 0.21	$ 0.20	$ 0.22	$ 0.21	$ 0.22	$ 0.22
AFFO (basic)[5]	**$ 0.13**	$ 0.14	$ 0.13	$ 0.12	$ 0.15	$ 0.15	$ 0.17	$ 0.16
ACFO (basic)[5]	**$ 0.14**	$ 0.14	$ 0.13	$ 0.13	$ 0.16	$ 0.15	$ 0.20	$ 0.26
Annualized distribution rate[3]	**$ 0.480**	$ 0.480	$ 0.480	$ 0.480	$ 0.480	$ 0.480	$ 0.480	$ 0.480
FFO Payout Ratio[5]	**58%**	57%	58%	60%	55%	57%	53%	55%
AFFO Payout Ratio[5]	**90%**	86%	95%	99%	78%	80%	71%	76%
ACFO Payout Ratio[5]	**88%**	83%	92%	95%	76%	77%	61%	46%
Period-end closing unit price	**$4.55**	$4.69	$5.35	$5.53	$5.75	$6.19	$7.23	$6.79
Annualized distribution yield on closing unit price (%)[2]	**10.55%**	10.23%	8.97%	8.68%	8.35 %	7.75 %	6.64%	7.07%

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 AFFO 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. *Since August 2021, monthly distributions have remained at $0.04 per unit per month. Prior to August 2021, the REIT's distribution was $0.035 per unit per month from January to July 2021.*
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 September 30, 2023 in comparison to the December 31, 2022 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 September 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

There has been no change in the REIT's disclosure controls and procedures of internal control over financial reporting during the year ended December 31, 2022, that materially affected, or is reasonably likely to materially affect, the REIT's internal control over financial reporting.

Notwithstanding the foregoing, no assurance can be made that the REIT's controls over disclosure and financial reporting and related procedures will detect or prevent all failures of people to disclose material information otherwise required to be set forth in the REIT's reports

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.sedarplus.ca and is available on request to all unitholders. At November 2, 2023, 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 incentives 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:

	Three months ended September 30			Nine months ended September 30		
($000s)	**2023**	2022	△%	**2023**	2022	△%
Net income for the period	**7,075**	19,151		**17,929**	30,672	
Net finance costs	**6,368**	4,380		**19,380**	13,314	
Fair value adjustment on Class B LP Units	**(2,257)**	(7,095)		**(15,803)**	(16,770)	
Fair value adjustment on investment properties	**(1,051)**	(6,337)		**8,365**	2,865	
General and administrative expenses	**779**	783		**2,294**	2,381	
Amortization of tenant incentives	**968**	956		**3,019**	2,763	
Straight-line rent adjustment	**12**	(225)		**(79)**	(366)	
NOI	**11,894**	11,613	2	**35,105**	34,859	1

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. 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.

	Three months ended September 30			Nine months ended September 30		
($000s)	**2023**	2022	△%	**2023**	2022	△%
Net income for the period	**7,075**	19,151		**17,929**	30,672	
Fair value adjustment on Class B LP Units	**(2,257)**	(7,095)		**(15,803)**	(16,770)	
Fair value adjustment on investment properties	**(1,051)**	(6,337)		**8,365**	2,865	
Fair value adjustment on derivative instruments	**(636)**	(2,949)		**(1,100)**	(7,036)	
Income before fair value adjustment and taxes	**3,131**	2,770	13	**9,391**	9,731	(3)

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, assets held for sale, and other assets (TI's and SLR).