Press Release

for immediate distribution

Melcor REIT announces third quarter 2023 results

Edmonton, Alberta | November 2, 2023

Melcor REIT (TSX: MR.UN) today announced results for the third quarter ended September 30, 2023. The third quarter Management Discussion & Analysis and Condensed Interim Financial Statements are available on our website (www.MelcorREIT.ca) under Financial Reports, or on SEDAR+ (www.sedarplus.ca)

Andrew Melton, CEO of Melcor REIT commented: "We are pleased to report stable third quarter results despite challenging market conditions. Our property management group remains dedicated to our existing tenants and providing best-in-class service and our leasing teams efforts have helped to increase in-place occupancy to 89% and committed occupancy to 91%. Efforts to improve occupancy are expected to yield benefits in the quarters to come as tenants occupy space and start paying rent and operating costs.

We continue to navigate challenges such as escalating financing costs, continued inflation impacting operating and leasing costs, and challenges within our office space portfolio. We remain focused on retaining current tenants and leasing up vacant space to help combat these rising costs. 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.

Earlier in the year, we listed our Saskatchewan properties for sale as part of a strategic decision to focus on our Alberta markets and create additional liquidity for future opportunities and to focus on remaining assets and financial resilience. We have seen interest on these asset listings, and sales efforts continue."

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)
- Net operating income (NOI) was up 2% at $11.89 million (Q3-2022: $11.61 million)
- Funds from operations (FFO) was down 4% to $6.03 million or $0.21 per unit (Q3-2022: $6.31 million or $0.22 per unit)
- Adjusted cash flows from operations (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)
- Net operating income (NOI) remained stable at $35.11 million (2022: $34.86 million)
- Funds from operations (FFO) was down 4% at $18.22 million or $0.63 per unit (2022: $18.94 million or $0.65 per unit)
- Adjusted cash flows from operations (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%)

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 non-cash fair value adjustments and thus not a meaningful metric to assess financial performance.

In the quarter rental revenue was up 1% and has remained stable year-to-date. Net rental 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.

OPERATIONAL HIGHLIGHTS:

We continue to focus efforts on leasing and 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. Our portfolio produced stable results in the third quarter despite rising costs and inflationary pressures in all our markets.

Retail properties continue to anchor our portfolio, and have seen slight improvements in both occupancy and WABR compared to last year. Retail represents 44% of our total GLA 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.

DISTRIBUTIONS:

In the nine months ended September 30, 2023 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.

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[3]	**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.*
3. *The abbreviation nm is shorthand for not meaningful and may be used where appropriate.*

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 %	–
Retention (weighted by GLA)	**92.1 %**	86.1 %	11
Weighted average remaining lease term (years)	**4.33**	4.25	(11)
Weighted average base rent (per sf)	**$16.93**	$16.55	1

Per Unit Metrics:

	Three months ended September 30			Nine months ended September 30		
	2023	2022	△%	**2023**	2022	△%
Per Unit Metrics						
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.*

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

MD&A and Financial Statements

Information included in this press release is a summary of results. This press release should be read in conjunction with the REIT's Q3-2023 quarterly report to unitholders. The REIT's consolidated financial statements and management's discussion and analysis for the period ended September 30, 2023 can be found on the REIT's website at www.MelcorREIT.ca or on SEDAR+ (www.sedarplus.ca).

Conference Call & Webcast

Unitholders and interested parties are invited to join management on a conference call to be held November 3, 2023 at 11:00 AM ET (9:00 AM MT). Call 1-416-915-3239 in the Toronto area; 1-800-319-4610 toll free.

The call will also be webcast (listen only) at https://www.gowebcasting.com/12678. A replay of the call will be available at the same URL shortly after the call is concluded.

About Melcor REIT

Melcor REIT is an unincorporated, open-ended real estate investment trust. Melcor REIT owns, acquires, manages and leases quality retail, office and industrial income-generating properties in western Canadian markets. Its portfolio is currently made up of interests in 38 properties representing approximately 3.15 million square feet of gross leasable area located across Alberta and in Regina, Saskatchewan; and Kelowna, British Columbia. For more information, please visit www.MelcorREIT.ca.

Non-GAAP and Non-standard Measures

NOI, FFO, AFFO and ACFO are key measures of performance used by real estate operating companies; however, they are not defined by International Financial Reporting Standards (IFRS), do not have standard meanings and may not be comparable with other industries or income trusts. These non-IFRS measures are defined and discussed in the REIT's MD&A for the quarter ended September 30, 2023, which is available on SEDAR+ at www.sedarplus.ca.

Finance costs coverage ratio: Finance costs coverage ratio is a non-GAAP ratio and is calculated as FFO plus finance costs for the period divided by finance costs expensed during the period excluding distributions on Class B LP Units and fair value adjustment on derivative instruments.

Debt service coverage ratio: Debt service coverage ratio is a non-GAAP ratio and is calculated as FFO for the period divided by principal repayments on mortgages payable and Class C LP Units made during the period.

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

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

	Three months ended 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 and other assets (TIs and SLR).

NOI Reconciliation:

	Three months ended September 30			Nine months ended September 30		
($000s)	**2023**	2022	r%	**2023**	2022	r%
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

Same-asset Reconciliation:

	Three months ended September 30			Nine months ended September 30		
($000s)	**2023**	2022	△%	**2023**	2022	△%
Same-asset NOI	**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)

FFO & AFFO Reconciliation:

	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	**3,871**	4,464	(13)	**11,611**	13,727	(15)
FFO/Unit	**$0.21**	$0.22		**$0.63**	$0.65	
AFFO/Unit	**$0.13**	$0.15		**$0.40**	$0.47	
Weighted average number of units (000s):[1]	**29,088**	29,088	–	**29,088**	29,089	–

1. *For the purposes of calculating per unit FFO and AFFO, the basic weighted average number of units includes Trust Units and Class B LP Units.*

ACFO Reconciliation:

	Three months ended September 30			Nine months ended September 30		
($000s, except per unit amounts)	**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	**3,989**	4,623	(14)	**11,963**	14,194	(16)
ACFO/Unit	**$0.14**	$0.16		**$0.41**	$0.49	
Weighted average number of units (000s)[1]	**29,088**	29,088	–	**29,088**	29,089	–

1. *The diluted weighted average number of units includes Trust Units, Class B LP Units and convertible debentures.*

Forward-looking Statements:

This press release may contain forward-looking information within the meaning of applicable securities legislation, which reflects the REIT's current expectations regarding future events. Forward-looking information is based on a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond the REIT's control, that could cause actual results and events to differ materially from those that are disclosed in or implied by such forward-looking information. Such risks and uncertainties include, but are not limited to, general and local economic and business conditions; the financial condition of tenants; the REIT's ability to refinance maturing debt; leasing risks, including those associated with the ability to lease vacant space; and interest rate fluctuations. The REIT's objectives and forward-looking statements are based on certain assumptions, including that the general economy remains stable, interest rates remain stable, conditions within the real estate market remain consistent, competition for acquisitions remains consistent with the current climate and that the capital markets continue to provide ready access to equity and/or debt. All forward-looking information in this press release speaks as of the date of this press release. The REIT does not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise. Additional information about these assumptions and risks and uncertainties is contained in the REIT's filings with securities regulators.

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