



**MELCOR REAL ESTATE INVESTMENT TRUST**

Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2024

(Unaudited)

## Condensed Interim Consolidated Statements of Financial Position

As at September 30, 2024

(Unaudited)

(\$000s)	September 30, 2024	December 31, 2023	January 1, 2023
		Restated (note 3)	Restated (note 3)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	3,970	3,289	3,304
Restricted cash (note 6)	—	—	1,000
Accounts receivable	1,058	2,133	2,079
Other assets (note 5)	5,891	1,024	956
Assets held for sale (note 6)	54,495	33,774	19,500
	<b>65,414</b>	40,220	26,839
<b>Non-Current Assets</b>			
Investment properties (note 4, 15 and 17)	580,724	629,993	672,010
Other assets (note 5)	25,398	28,015	28,172
Derivative financial assets (note 17)	1,650	2,770	3,748
	<b>607,772</b>	660,778	703,930
<b>TOTAL ASSETS</b>	<b>673,186</b>	700,998	730,769
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Revolving credit facility (note 7)	28,960	37,860	31,634
Accounts payable	3,127	1,902	2,216
Distribution payable	—	1,163	1,163
Accrued liabilities and other payables (note 8)	8,979	11,316	9,673
Class C LP Units (note 10)	10,123	1,648	26,657
Class B LP Units (note 3, 11 and 17)	78,368	66,919	89,172
Mortgages payable (note 9)	88,472	53,698	56,339
Convertible debentures (note 3 and 17)	45,745	44,997	44,056
	<b>263,774</b>	219,503	260,910
<b>Non-Current Liabilities</b>			
Accrued liabilities and other payables (note 8)	3,731	1,871	1,809
Class C LP Units (note 10)	10,281	19,982	11,141
Mortgages payable (note 9)	219,776	259,620	267,300
Derivative financial liabilities (note 17)	787	734	412
<b>TOTAL LIABILITIES</b>	<b>498,349</b>	501,710	541,572
<b>UNITHOLDERS' EQUITY</b>	<b>174,837</b>	199,288	189,197
<b>TOTAL LIABILITIES AND UNITHOLDERS' EQUITY</b>	<b>673,186</b>	700,998	730,769

See accompanying notes to the condensed interim consolidated financial statements.

## Condensed Interim Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income

For the three and nine months ended September 30

(Unaudited)

(\$000s)	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
Rental revenue (note 13 and 15)	17,454	18,285	54,217	55,398
Direct operating expenses (note 15)	(7,372)	(7,371)	(23,157)	(23,233)
Net rental income	10,082	10,914	31,060	32,165
General and administrative expenses (note 15)	(1,589)	(779)	(3,623)	(2,294)
Fair value adjustment on investment properties (note 4 and 17)	(12,873)	1,051	(22,887)	(8,365)
Fair value adjustment on Class B LP Units (note 11 and 17)	(33,701)	2,257	(11,449)	15,803
(Loss) income before finance costs	(38,081)	13,443	(6,899)	37,309
Interest income	18	16	44	46
Finance costs (note 14 and 15)	(6,735)	(6,384)	(17,077)	(19,426)
Net finance costs	(6,717)	(6,368)	(17,033)	(19,380)
Net (loss) income and comprehensive (loss) income	(44,798)	7,075	(23,932)	17,929
Basic (loss) income per trust unit (note 12)	(\$3.46)	\$0.55	(\$1.85)	\$1.38
Diluted (loss) income per trust unit (note 12)	(\$3.46)	\$0.22	(\$1.85)	\$0.27

See accompanying notes to the condensed interim consolidated financial statements.

## Condensed Interim Consolidated Statements of Changes in Unitholders' Equity

For the nine months ended September 30

(Unaudited)

(\$000s except unit amounts)	Number of Trust Units	Trust Units	Contributed Surplus	Retained Earnings	Total Unitholders' Equity
<b>Balance at December 31, 2023</b>	12,963,169	116,614	41,601	41,073	199,288
Net loss for the period	—	—	—	(23,932)	(23,932)
Distributions to unitholders	—	—	—	(519)	(519)
<b>Balance at September 30, 2024</b>	12,963,169	116,614	41,601	16,622	174,837

(\$000s except unit amounts)	Number of Trust Units	Trust Units	Contributed Surplus	Retained Earnings	Total Unitholders' Equity
<b>Balance at December 31, 2022</b>	12,963,169	116,614	41,601	30,982	189,197
Net income for the period	—	—	—	17,929	17,929
Distributions to unitholders	—	—	—	(4,667)	(4,667)
<b>Balance at September 30, 2023</b>	12,963,169	116,614	41,601	44,244	202,459

See accompanying notes to the condensed interim consolidated financial statements.

## Condensed Interim Consolidated Statements of Cash Flows

For the three and nine months ended September 30

(Unaudited)

(\$000s)	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
<b>CASH FLOWS FROM (USED IN)</b>				
<b>OPERATING ACTIVITIES</b>				
Net (loss) income for the period	(44,798)	7,075	(23,932)	17,929
Non cash items:				
Amortization of tenant incentives (note 5 and 13)	1,206	968	3,098	3,019
Straight-line rent adjustments (note 13)	310	12	583	(79)
Fair value adjustment on investment properties (note 4 and 17)	12,873	(1,051)	22,887	8,365
Fair value adjustment on Class B LP Units (note 11 and 17)	33,701	(2,257)	11,449	(15,803)
Accretion on convertible debentures (note 14)	129	118	378	352
Fair value adjustment on derivative instruments (note 14 and 17)	1,483	(636)	1,173	(1,100)
Amortization of deferred financing fees (note 14)	286	285	848	934
	5,190	4,514	16,484	13,617
Payment of tenant incentives and direct leasing costs	(267)	(1,357)	(3,505)	(4,358)
Changes in operating assets and liabilities	2,821	670	2,246	(463)
	7,744	3,827	15,225	8,796
<b>INVESTING ACTIVITIES</b>				
Change in restricted cash (note 6)	—	—	—	1,000
Net proceeds from disposal of assets held for sale (note 6)	—	—	7,480	18,025
Investment in property improvements (note 4)	(1,095)	(1,905)	(1,965)	(2,586)
Purchase of short-term investments	—	—	(5,075)	—
Redemption of short-term investments	557	—	744	—
	(538)	(1,905)	1,184	16,439
<b>FINANCING ACTIVITIES</b>				
Net (repayment) proceeds on revolving credit facility (note 7)	(1,946)	2,783	(8,801)	2,930
Proceeds from mortgages payable (note 9)	—	—	11,000	12,740
Repayment of mortgages payable (note 9)	(4,170)	(2,681)	(16,182)	(20,514)
Repayment on Class C LP Units (note 10)	(414)	(390)	(1,226)	(15,770)
Distributions to unitholders	—	(1,556)	(519)	(4,667)
	(6,530)	(1,844)	(15,728)	(25,281)
<b>INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS DURING THE PERIOD</b>	<b>676</b>	<b>78</b>	<b>681</b>	<b>(46)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD</b>	<b>3,294</b>	<b>3,180</b>	<b>3,289</b>	<b>3,304</b>
<b>CASH AND CASH EQUIVALENTS, END OF THE PERIOD</b>	<b>3,970</b>	<b>3,258</b>	<b>3,970</b>	<b>3,258</b>

See accompanying notes to the condensed interim consolidated financial statements.

## 1. DESCRIPTION OF THE TRUST

Melcor Real Estate Investment Trust (the "REIT" or "we") is an unincorporated, open-ended real estate investment trust established pursuant to a declaration of trust ("DOT") dated January 25, 2013 and subsequently amended and restated May 1, 2013. We began operations on May 1, 2013.

Our principal business is to acquire, own and manage office, retail and industrial properties in select markets across Western Canada. The properties are externally managed, administered and operated by Melcor Developments Ltd. ("Melcor") pursuant to the Property Management Agreement and Asset Management Agreement (note 15).

As at November 4, 2024, Melcor holds an approximate 55.4% effective interest in the REIT through ownership of all Class B LP Units of Melcor REIT Limited Partnership (the "Partnership"). Furthermore, Melton Holdings Ltd. owns approximately 51.6% of the outstanding shares of Melcor and pursuant to IAS 24, Related Party Disclosures, is the ultimate controlling shareholder.

On September 12, 2024, Melcor and the REIT announced that they entered into an arrangement agreement with Melcor REIT GP Inc. (the "Arrangement Agreement") pursuant to which, among other steps, Melcor will acquire its unowned equity interest (approximately 44.6%) in Melcor REIT Limited Partnership ("REIT LP") for \$4.95 per unit in cash consideration. Melcor's unowned equity interest in REIT LP comprises all REIT LP's outstanding Class A LP Units (approximately 13.0 million units). The REIT will use the proceeds from the REIT LP sale to redeem and cancel all of the REIT's participating trust units. Completion of the transaction is subject to various closing conditions, including court approval and the approval of: (i) at least two-thirds of the votes cast by the holders of participating trust units and special voting units of the REIT, and (ii) the majority of the votes cast by holders of participating trust units and special voting units of the REIT, excluding the votes of Melcor and any other unitholders excluded for the purposes of "minority approval" under Multilateral Instrument 61-101 - Protection of Minority Security Holders in Special Transactions.

There are contingent fees payable on successful completion of the transaction of 0.75% based on the transaction value, estimated at \$826. If the transaction is not successful, then a termination fee of \$5,800 may be payable by Melcor or the REIT in certain circumstances.

We are governed under the laws of the Province of Alberta. Our registered office is located at Suite 900, 10310 Jasper Avenue Edmonton, Alberta, Canada. Our trust units are traded on the Toronto Stock Exchange under the symbol "MR.UN".

## 2. BASIS OF PRESENTATION

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standard Board ("IFRS Accounting Standards") applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*.

These condensed interim consolidated financial statements should be read in conjunction with our annual consolidated financial statements for the year ended December 31, 2023, which have been prepared in accordance with IFRS Accounting Standards. These condensed interim consolidated financial statements were authorized for issue by the Board of Trustees on November 4, 2024.

## 3. MATERIAL ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

The accounting policies followed in these condensed interim consolidated financial statements are consistent with those of the previous financial year except as described below.

### NEW AND AMENDED STANDARD ADOPTED

We have adopted the following amendment on January 1, 2024.

**IAS 1, Presentation of financial statements** was amended to clarify how to classify debt and other liabilities as either current or non-current. The definition of settlement has been changed to clarify that settlement of a liability includes any kind of settlement, whether in cash, other assets or in the entity's own equity. The amendment to IAS 1 is effective for annual periods beginning on or after January 1, 2024 and impacts the classification of the Class B LP Units and convertible debentures in the consolidated statement of financial position. The Class B LP Units and convertible debentures are convertible into trust units at the option of the holder and are required to be presented as current liabilities in accordance with the amendment to IAS 1. The amendment has been applied retrospectively with restatement and has resulted in the Class B LP Units of \$66,919 as at December 31, 2023 and \$89,172 as at January 1, 2023 that were previously included in non-current liabilities being

reclassified to current liabilities. The convertible debenture of \$44,056 as at January 1, 2023 that was previously included in non-current liabilities, has also been reclassified to current liabilities.

### Financial Instruments

Short-term investments are initially measured at fair value and subsequently measured at amortized cost as the short-term investments are held for collection of contractual cash flows that represent solely payments of principal and interest.

## 4. INVESTMENT PROPERTIES

The following table summarizes the change in investment properties and assets held for sale during the period:

(\$000s)	Nine months ended September 30, 2024		
	Investment Properties	Assets held for sale (note 6)	Total
<b>Balance - beginning of period</b>	<b>629,993</b>	<b>32,143</b>	<b>662,136</b>
Direct leasing costs	848	—	848
Property improvements	1,965	—	1,965
Fair value adjustment on investment properties (note 17)	(21,487)	(1,400)	(22,887)
Assets held for sale transferred to investment properties	31,605	(31,605)	—
Investment properties transferred to assets held for sale (note 6)	(62,200)	62,200	—
Disposals	—	(7,781)	(7,781)
Other adjustments	—	232	232
<b>Balance - end of period</b>	<b>580,724</b>	<b>53,789</b>	<b>634,513</b>

(\$000s)	Year ended December 31, 2023		
	Investment Properties	Assets held for sale (note 6)	Total
Balance - beginning of period	672,010	19,089	691,099
Direct leasing costs	1,338	—	1,338
Property improvements	5,295	—	5,295
Fair value adjustment on investment properties (note 17)	(15,469)	(1,325)	(16,794)
Investment properties transferred to assets held for sale (note 6)	(33,468)	33,468	—
Disposals	—	(19,089)	(19,089)
Other adjustments	287	—	287
Balance - end of period	629,993	32,143	662,136

In accordance with our policy we record our investment properties at fair value. Fair value adjustments on investment properties are primarily driven by changes in capitalization rates and stabilized net operating income ("NOI"). Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 17.

Presented separately from investment properties is \$18,210 (December 31, 2023 - \$20,063) in tenant incentives and \$7,188 (December 31, 2023 - \$7,952) in straight-line rent adjustments (note 5). The fair value of investment properties has been reduced by these amounts.

During the nine-months ended September 30, 2024, we transferred three investment properties with a value of \$62,200 from investment properties to assets held for sale (December 31, 2023 - \$33,468). During the third quarter, we ceased marketing the three properties that were transferred to assets held for sale in 2023 and reclassified the properties with a value of \$31,605 to investment properties and reclassified \$1,279 in tenant incentives and \$263 in straight-line rent adjustments to other assets.

## 5. OTHER ASSETS

(\$000s)	September 30, 2024	December 31, 2023
<b>Current Assets</b>		
Short term investments	4,331	—
Prepaid expense, and other	1,560	1,024
	<b>5,891</b>	<b>1,024</b>
<b>Non-Current Assets</b>		
Straight-line rent adjustments	7,188	7,952
Tenant incentives	18,210	20,063
	<b>25,398</b>	<b>28,015</b>

During the nine-month period, we recorded net tenant incentives of \$302 (2023 - \$5,391) and recorded \$3,098 (2023 - \$3,019) of amortization expense respectively.

In accordance with IFRS 16, *Leases*, amortization of tenant incentives is recorded on a straight-line basis over the term of the lease against rental revenue.

During the period, we also reclassified \$275 (2023 - \$1,370) in tenant incentives and \$431 (2023 - \$273) in straight-line rent adjustments to assets held for sale (note 6), this includes tenant incentives of \$61 and straight-line rent adjustments of \$13 for our investment property disposition (note 6). In addition, we reclassified \$1,279 in tenant incentives and \$263 in straight-line rent adjustments from assets held for sale to other assets.

Included in other assets are short term investments held in Guaranteed Investment Certificates (GICs). These GICs mature monthly from October 1, 2024 to May 1, 2025 and earn interest ranging from 5.00% to 5.22%.

## 6. ASSETS HELD FOR SALE

As at September 30, 2024, assets held for sale includes two properties with a fair value of \$54,495 (including investment property of \$53,789, tenant incentives of \$275 and straight-line rent adjustments of \$431). As at September 30, 2024 management has listed these assets for sale with the intention to sell the properties. As at December 31, 2023, assets held for sale included three retail properties with a fair value of \$33,774 (including investment property of \$32,143, tenant incentives of \$1,360 and straight-line rent adjustments of \$271).

On April 16, 2024 we disposed of an investment property classified as assets held for sale, for net proceeds of \$7,480, resulting from a purchase price of \$7,800 less transaction costs of \$320. The price was settled in cash, excluding working capital adjustments. The sold property was pledged as collateral on a different mortgage and as such the bank required \$5,075 from the net proceeds be held as additional security in short term investments (note 5). GICs included in short term investments mature monthly and the proceeds are used to repay the mortgage. Net cash of \$2,405 was used to reduce borrowings on our credit facility.

On February 1, 2023, we disposed of an investment property classified as assets held for sale at December 31, 2022 for net proceeds of \$19,025 (including a \$1,000 deposit held as restricted cash at December 31, 2022), resulting from a purchase price of \$19,500 less transaction costs of \$475. The price was settled in cash, excluding working capital adjustments. Proceeds from the sale were used to repay the outstanding principal balance on the mortgage of \$8,727 with the remaining cash being used to reduce borrowings on our credit facility.

## 7. REVOLVING CREDIT FACILITY

On May 27, 2024, we entered into an amended and restated credit agreement with our lenders. Under the terms of our revolving credit facility agreement the REIT maintains an available credit limit based on the lesser of the present value of discounted cash flows or 75% of the appraised value of specific investment properties to a maximum of \$50,000 for general corporate purposes and acquisitions, including a \$5,000 swing line sub-facility. Depending on the form under which the credit facility is accessed, rates of interest will vary between prime plus 1.25% or CORRA plus 2.25%. The agreement also provides the REIT with \$5,000 in available letters of credit which bear interest at 2.25%. Interest payments are due and payable based



upon the form of the facility drawn upon, and principal is due and payable upon maturity. The agreement also bears a standby fee of 0.45% for the unused portion of the revolving facility. The lenders hold demand debentures, a first priority general security and a general assignment of leases and rents over specific investment properties as security for the facility. The facility matures on the earlier of June 1, 2026 or October 31, 2024 if the convertible debentures have not been extended, or redeemed or if the REIT has not secured funds to satisfy the convertible debentures by its maturity date. During the quarter, the agreement was amended to extend the maturity date to November 30, 2024. At September 30, 2024, we have access to \$40,428 in available credit limit based on the borrowing base calculation.

Interest rate reform and replacement of benchmark interest rates such as CDOR and other inter-bank offered rates ('IBORs') has become a priority for global regulators. As at September 30, 2024, our credit facility has transitioned to CORRA rates.

(\$000s)	September 30, 2024	December 31, 2023
Amount drawn on facility	29,100	37,901
Unamortized transaction fees	(140)	(41)
	28,960	37,860

## 8. ACCRUED LIABILITIES AND OTHER PAYABLES

(\$000s)	September 30, 2024	December 31, 2023
<b>Current Liabilities</b>		
Tenant security deposits and pre-payments	2,991	3,533
Accrued finance costs	1,518	759
Lease obligation	335	833
Other accrued liabilities and payables	4,135	6,191
	8,979	11,316
<b>Non-Current Liabilities</b>		
Lease obligation	1,800	—
Decommissioning obligation	1,931	1,871
	3,731	1,871

The REIT's lease obligation relates to property improvements and tenant improvements at a commercial property.

## 9. MORTGAGES PAYABLE

(\$000s)	September 30, 2024	December 31, 2023
Mortgages amortized over 15-25 years at fixed interest rates	232,286	236,033
Mortgages amortized over 25 years at floating interest rate (fixed via floating for fixed interest rate swaps)	77,340	78,775
Unamortized deferred financing fees	(1,378)	(1,490)
	308,248	313,318
Current portion of mortgages payable	(88,472)	(53,698)
	219,776	259,620
Interest rate ranges	2.62%-8.01%	2.62%-8.01%

The change in mortgages payable during the period is summarized as follows:

(\$000s)	Nine months ended September 30, 2024	Year ended December 31, 2023
<b>Balance - beginning of period</b>	<b>313,318</b>	323,639
Principal repayments:		
Scheduled amortization on mortgages	(7,567)	(10,467)
Mortgage repayments	(8,615)	(12,658)
New mortgages	11,000	12,740
Deferred financing fees	(241)	(431)
Amortization of deferred financing fees	353	495
<b>Balance - end of period</b>	<b>308,248</b>	313,318

Interest rate reform and replacement of benchmark interest rates such as CDOR and other inter-bank offered rates ('IBORs') has become a priority for global regulators. We had five debt agreements with a carrying value of \$77,340 which reference CDOR/Banker's Acceptance. These loans have transitioned to CORRA rates during the year.

## 10. CLASS C LP UNITS

Class C LP Units are held by Melcor in consideration of debt retained on certain properties sold to the REIT. Distributions are made on the units in order to permit Melcor to satisfy required principal and interest payments. The Class C LP Units are classified as debt and a portion of the distributions are recognized as interest expense.

(\$000s)	September 30, 2024	December 31, 2023
Class C LP Units amortized over 15-25 years at fixed interest rates	20,404	21,630
Current portion of Class C LP Units	(10,123)	(1,648)
	10,281	19,982
Weighted average interest rate	4.92%	4.97%

As at September 30, 2024 we had 10,785,613 Class C LP Units issued and outstanding (December 31, 2023 - 10,785,613).

The change in Class C LP units during the period is summarized as follows:

(\$000s)	Nine months ended September 30, 2024	Year ended December 31, 2023
<b>Balance - beginning of period</b>	<b>21,630</b>	37,798
Principal repayments:		
Scheduled amortization on Class C LP Units	(1,226)	(1,911)
Class C LP Units repayments	—	(14,257)
<b>Balance - end of period</b>	<b>20,404</b>	21,630

## 11. CLASS B LP UNITS

Class B LP Units are held by Melcor and are exchangeable at the option of the holder for one trust unit and, therefore, are considered a puttable instrument and are required to be accounted for as a financial liability. Each unit is accompanied by one special voting unit which entitles the holder to one vote at any meeting of the unitholders. Distributions on Class B LP Units are recorded and paid to holders equal to those declared on trust units and are included in finance costs.

In accordance with our policy, we record Class B LP units at fair value. We remeasured the Class B LP Units at September 30, 2024 and recognized a fair value loss of \$11,449 during the nine-month period (2023 - fair value gain of \$15,803). Supplemental information on fair value measurement, including valuation technique and the key input, is included in note 17.

At September 30, 2024 there were 16,125,147 Class B LP Units issued and outstanding at a fair value of \$4.86 per unit or \$78,368 (December 31, 2023 - 16,125,147 at \$4.15 per unit or \$66,919).

The following table summarizes the change in Class B LP Units for the period:

	Nine months ended September 30, 2024		Year ended December 31, 2023	
	# of units	(\$000's)	# of units	(\$000's)
<b>Balance - beginning of period</b>	<b>16,125,147</b>	<b>66,919</b>	16,125,147	89,172
Fair value adjustment on Class B LP Units (note 17)	—	<b>11,449</b>	—	(22,253)
<b>Balance - end of period</b>	<b>16,125,147</b>	<b>78,368</b>	16,125,147	66,919

## 12. UNITHOLDERS' EQUITY

At September 30, 2024, our issued and outstanding trust units were 12,963,169 (December 31, 2023 - 12,963,169).

(\$000's except unit and per unit amounts)	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Net (loss) income - basic	(44,798)	7,075	(23,932)	17,929
Impact of Class B LP Units fair value adjustment and distributions*	—	(322)	—	(9,998)
Impact of convertible debentures interest, fair value adjustment, amortization and accretion*	—	826	—	—
Net (loss) income - diluted	(44,798)	7,579	(23,932)	7,931
Basic weighted average trust units outstanding	<b>12,963,169</b>	12,963,169	<b>12,963,169</b>	12,963,169
Impact of conversion of Class B LP Units*	—	16,125,147	—	16,125,147
Impact of conversion of convertible debentures*	—	5,168,542	—	—
Diluted weighted average trust units outstanding	<b>12,963,169</b>	34,256,858	<b>12,963,169</b>	29,088,316
Basic (loss) income per trust unit	(\$3.46)	\$0.55	(\$1.85)	\$1.38
Diluted (loss) income per trust unit*	(\$3.46)	\$0.22	(\$1.85)	\$0.27

\*Diluted (loss) income per trust unit do not include the impact of Class B LP Units and convertible debentures when they are anti-dilutive.

## 13. RENTAL REVENUE

The components of rental revenue are as follows:

(\$000s)	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Lease revenue	<b>12,550</b>	12,774	<b>37,640</b>	37,880
Variable lease revenue	<b>3,482</b>	3,519	<b>10,501</b>	10,561
Service revenue	<b>2,938</b>	2,972	<b>9,757</b>	9,897
Amortization of tenant incentives (note 5)	(1,206)	(968)	(3,098)	(3,019)
Straight-line adjustments	(310)	(12)	(583)	79
	<b>17,454</b>	18,285	<b>54,217</b>	55,398

## 14. FINANCE COSTS

The components of finance costs are as follows:

(\$000s)	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Interest on mortgages payable and revolving credit facility	3,997	3,819	11,498	10,776
Interest on Class C LP Units	253	276	775	899
Distributions on Class B LP Units	—	1,935	645	5,805
Interest on convertible debenture	587	587	1,760	1,760
Accretion on convertible debentures	129	118	378	352
Fair value adjustment on derivative instruments	1,483	(636)	1,173	(1,100)
Amortization of deferred financing fees	286	285	848	934
	<b>6,735</b>	<b>6,384</b>	<b>17,077</b>	<b>19,426</b>

Total finance costs paid during the three and nine-month period were \$4,131 and \$14,160 (2023 - \$5,535 and \$17,755).

## 15. RELATED PARTY TRANSACTIONS

In addition to the Arrangement Agreement described in note 1 and Backstop Loan Agreement described in note 16(b), our condensed interim consolidated financial statements include the following related party transactions with Melcor, and its affiliates, as our controlling unitholder:

### a) Property and Asset Management Agreements

Pursuant to the terms of the Property and Asset Management Agreements, we incurred the following fees during the period:

(\$000s)	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
<b>Asset Management Agreement</b>				
Base Annual Management Fee	469	472	1,411	1,418
Capital Expenditure Fee	—	—	169	—
<b>Property Management Agreement</b>				
Monthly Fee	520	533	1,617	1,678
Lease Fee	162	154	609	351
	<b>1,151</b>	<b>1,159</b>	<b>3,806</b>	<b>3,447</b>

The Base Annual Management Fee is included in general and administrative expenses. Monthly Fees are included in direct operating expenses. Lease Fees are capitalized to investment properties. As at September 30, 2024 there was \$996 (December 31, 2023 - \$988) payable to Melcor related to these fees.

### b) Distributions on Class B LP Units and Redemptions of Class C LP Units

During the three and nine-month period ended September 30, 2024, \$nil and \$645 in distributions were recorded on Class B LP Units held by Melcor (2023 - \$1,935 and \$5,805). These distributions were recorded as finance costs (note 14). As at September 30, 2024 there was \$nil payable to Melcor as distributions were suspended during the first quarter (December 31, 2023 - \$645 for the December 2023 distribution).

Also during the three and nine-month period ended September 30, 2024, Melcor, as holder of all Class C LP Units, was paid \$667 and \$2,001 to fund principal and interest payments on the retained debt (2023 - \$666 and \$2,412). These redemptions were recorded as a reduction of the Class C unit liability and as a finance cost (note 14).

**c) Rental Revenue**

For the three and nine-month period ended September 30, 2024 we collected \$233 and \$638 in rental revenue from Melcor and an affiliate for use of office space (2023 - \$228 and \$655). This amount is included in rental revenue.

**d) Key Management Remuneration**

The REIT does not directly or indirectly pay any compensation to named executive officers of the REIT. The REIT has no employees and is externally managed, administered and operated by Melcor pursuant to the Asset Management Agreement and Property Management Agreement.

## 16. FINANCIAL RISK MANAGEMENT

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The REIT's exposure to financial risks and how these risks could affect future financial performance is as follows:

**a) Credit Risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Our financial assets that are exposed to credit risk consist of cash and cash equivalents, short-term investments and accounts receivable measured at amortized cost and derivative financial asset measured at fair value. Our maximum exposure to credit risk is the carrying amount of these instruments.

We invest our cash and cash equivalents and short-term investments in bank accounts with major Canadian chartered banks. Accounts receivable balances include amounts due from tenants and various smaller amounts due from vendors. We manage our credit risk through careful selection of tenants and look to obtain national tenants or tenants in businesses with a long standing history, or perform financial background checks including business plan review for smaller tenants. We manage our concentration risk by renting to an expansive tenant base, with no dependency on rents from any one specific tenant.

For our accounts receivable, we apply the simplified credit loss approach, which requires us to recognize lifetime expected credit losses for all accounts receivable balances by applying an expected loss rate based on historical credit losses adjusted for current and forward looking information which may affect the ability of the customers to settle receivables. Accounts receivable have been grouped based on shared credit risk characteristics. At this time, based on current economic outlook management has assessed the current expected credit loss at \$4 (2023 - \$250).

Derivative instruments are with approved counter-party banks. Counter-parties are assessed prior to, during, and after the conclusion of the transactions to ensure exposure to credit risk is limited to an acceptable level.

**b) Liquidity Risk**

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due. We manage liquidity risk to ensure that we have sufficient liquid financial resources to finance operations, meet long-term mortgage repayments, Class C LP Unit redemptions, convertible debenture payments and make monthly distributions on Class B LP Units and trust units when declared. We monitor rolling forecasts of our liquidity, which includes cash, on the basis of expected cash flows. In addition, we monitor balance sheet liquidity ratios against capital requirements and maintain on-going debt financing plans. We believe that based on the cash flow models created by management we have access to sufficient liquidity through internally generated cash flows, external sources and undrawn committed borrowing facilities to meet current spending forecasts.

The convertible debentures are due on December 31, 2024. In connection with the execution of the Arrangement Agreement (note 1), Melcor, the REIT and the REIT LP have entered into a separate Backstop Loan Agreement where Melcor has agreed to make an unsecured loan to the REIT in the principal amount up to the aggregate principal amount of the debentures outstanding on redemption in full, excluding any accrued but unpaid interest thereon. If the transactions contemplated by the Arrangement Agreement are completed when the convertible debentures are outstanding, the convertible debentures will be repaid in connection with the completion of the Arrangement using funds advanced by Melcor pursuant to the Arrangement. However, if the transactions contemplated by the Arrangement Agreement have not been completed by prior to the maturity of the convertible debentures or the REIT has issued a redemption notice with respect to the convertible debentures with a redemption date prior to the closing date of the Arrangement, the REIT may, in its discretion (subject to certain conditions), on behalf of the REIT LP as borrower, draw on the Backstop Loan Agreement in an amount up to the principal amount of the debenture for the purpose of repaying the same. The Backstop Loan Agreement is only anticipated to be drawn on in the event the Arrangement is not completed by the earlier of December 17, 2024 or the date set forth in the redemption notice, as applicable. The Backstop Loan

Agreement and the advance thereunder is not contingent on the unitholder vote. Amounts advanced pursuant to the Backstop Loan Agreement will mature three years from the date of advance with a fixed interest rate of 12%, paid semi-annually.

### c) Market Risk

We are subject to interest rate cash flow risk as our revolving credit facility bears interest at rates that vary in accordance with borrowing rates in Canada. For each 1% change in the rate of interest on our revolving credit facility the change in annual finance costs is approximately \$291 (December 31, 2023 - \$379). We are not subject to other significant market risks pertaining to our financial instruments with the exception of our Class B LP Units, which are carried at fair value based on the underlying market price of the REIT units (note 11).

## 17. FAIR VALUE MEASUREMENT

Fair value is the price that market participants would be willing to pay for an asset or liability in an orderly transaction under current market conditions at the measurement date.

The fair value of the REIT's financial instruments were determined as follows:

- the carrying amounts of cash and cash equivalents, short-term investments, accounts receivable, revolving credit facility, accounts payable and distribution payable approximate their fair values based on the short term maturities of these financial instruments.
- fair values of mortgages payable, Class C LP Units and interest rate swaps are estimated by discounting the future cash flows associated with the debt at market interest rates (Level 3).
- fair value of the conversion features on our convertible debentures, is estimated based upon unobservable inputs, including volatility and credit spread (Level 3).
- fair value of Class B LP Units are estimated based on the closing trading price of the REIT's trust units and the fair value of convertible debenture is estimated based on the closing trading price of the REIT's debenture (Level 2).

In addition, the REIT carries its investment properties and assets held for sale at fair value which is determined based on the accepted valuation methods of direct income capitalization or discounted future cash flows (Level 3).

The fair value hierarchy categorizes fair value measurement into three levels based upon the inputs to valuation technique, which are defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

There were no transfers between the levels of the fair value hierarchy during the period.

The following table summarizes the REIT's assets and liabilities carried at fair value and its financial assets and liabilities where carrying value may not approximate fair value.

		September 30, 2024				December 31, 2023	
		Fair Value	Amortized Cost	Total Carrying Value	Total Fair Value	Total Carrying Value	Total Fair Value
<b>(\$000s)</b>							
<b>Non-financial assets</b>							
Investment properties	Level 3	580,724	—	580,724	580,724	629,993	629,993
Assets held for sale	Level 3	54,495	—	54,495	54,495	33,774	33,774
<b>Financial liabilities</b>							
Mortgages payable	Level 3	—	308,248	308,248	295,123	313,318	279,971
Class B LP Units	Level 2	78,368	—	78,368	78,368	66,919	66,919
Class C LP Units	Level 3	—	20,404	20,404	19,437	21,630	20,414
Convertible debentures	Level 2	—	45,745	45,745	45,990	44,997	44,356
<b>Derivative financial liabilities</b>							
Interest rate swaps	Level 3	613	—	613	613	580	580
Conversion feature on convertible debentures	Level 3	174	—	174	174	154	154
<b>Derivative financial assets</b>							
Interest rate swaps	Level 3	1,650	—	1,650	1,650	2,770	2,770

### Investment properties

Investment properties are remeasured to fair value on a recurring basis, determined based on the accepted valuation methods of direct income capitalization or discounted future cash flows. The application of these valuation methods results in these measurements being classified as Level 3 in the fair value hierarchy.

Under the discounted future cash flows method, fair values are determined by discounting the forecasted future cash flows over ten years plus a terminal value determined by applying a terminal capitalization rate to forecasted year eleven cash flows.

Under the direct income capitalization method, fair values are determined by dividing the stabilized net operating income of the property by a property specific capitalization rate.

The significant unobservable inputs in the Level 3 valuations are as follows:

- Capitalization rate - based on actual location, size and quality of the property and taking into consideration available market data as at the valuation date;
- Stabilized net operating income - revenue less direct operating expenses adjusted for items such as average lease up costs, vacancies, non-recoverable capital expenditures, management fees, straight-line rents and other non-recurring items;
- Discount rate - reflecting current market assessments of the uncertainty in the amount and timing of cash flows;
- Terminal capitalization rate - taking into account assumptions regarding vacancy rates and market rents; and
- Cash flows - based on the physical location, type and quality of the property and supported by the terms of existing leases, other contracts or external evidence such as current market rents for similar properties.

An increase in the cash flows or stabilized net operating income results in an increase in fair value of investment property whereas an increase in the capitalization rate, discount rate or terminal capitalization rate decreases the fair value of the investment property.

In determining the fair value of our investment properties judgment is required in assessing the 'highest and best use' as required under IFRS 13, Fair value measurement. We have determined that the current uses of our investment properties are their 'highest and best use'.

The REIT's management company, Melcor, lead by Melcor's executive management team, is responsible for determining fair value measurements on a quarterly basis, including verifying all major inputs included in the valuation and reviewing the results. Melcor's management, along with Melcor REIT Audit Committee, discuss the valuation process and key inputs on a quarterly basis. At least once every two years, the valuations are performed by qualified external valuers who hold

recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.

Investment properties were valued by Melcor's internal valuation team as at September 30, 2024 of which 37 investment properties (of 51 legal phases valued) with a fair value of \$432,750 were valued by qualified independent external valuation professionals during the period. Valuations performed during the nine-month period resulted in fair value losses of \$22,887. During the year ended December 31, 2023 Melcor's internal valuation team valued investment properties of which 18 investment properties (of 52 legal phases valued) with a fair value of \$256,850 were valued by qualified independent external valuation professionals during the year. Valuations performed during the year ended December 31, 2023 resulted in fair value loss of \$16,794.

Weighted average stabilized net operating income for investment properties is \$1,666 (December 31, 2023 - \$1,654) per property. Other significant valuation metrics and unobservable inputs are set out in the following table. Fair values are most sensitive to changes in capitalization rates.

	September 30, 2024			December 31, 2023		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	5.50%	10.50%	7.19%	5.50%	10.50%	7.24%
Terminal capitalization rate	6.00%	9.50%	7.29%	6.00%	9.25%	7.31%
Discount rate	6.75%	10.50%	8.21%	6.75%	10.25%	8.19%

An increase in the capitalization rates by 50 basis points would decrease the carrying amount of investment properties by approximately \$43,400 (December 31, 2023 - \$44,900). A decrease in the capitalization rates by 50 basis points would increase the carrying amount of investment properties by approximately \$49,800 (December 31, 2023 - \$51,500).

#### **Non-derivative financial instruments**

The fair value of mortgages payable and Class C LP Units has been calculated by discounting the expected cash flows of each loan using a discount rate specific to each individual loan. The discount rate is determined using the bond yield for similar instruments of similar maturity adjusted for each individual project's specific credit risk. In determining the adjustment for credit risk, we consider current market conditions and other indicators of credit worthiness.

#### **Derivative financial instruments**

Our derivative financial instruments are comprised of floating for fixed interest rate swaps on certain mortgages (level 3) and the conversion features on our convertible debentures (level 3).

The fair value of the interest rate swaps are calculated as the net present value of the future cash flows expected to arise on the variable and fixed portion, determined using applicable yield curves at the measurement date. As at September 30, 2024 the fair value of the interest rate swap assets are \$1,650 (December 31, 2023 - \$2,770) and liabilities of \$613 (December 31, 2023 - \$580).

The significant unobservable inputs used in the fair value measurement of the conversion features on the convertible debentures are volatility and credit spread. As at September 30, 2024, the fair value of the conversion feature on our convertible debentures was \$174 liability (December 31, 2023 - \$154 liability).

Valuations performed during the nine-month period resulted in fair value loss of \$1,173 (2023 - fair value gain of \$1,100).

#### **Class B LP Units**

Class B LP Units are remeasured to fair value on a recurring basis and categorized as Level 2 in the fair value hierarchy. The units are fair valued based on the trading price of the trust units at the period end date. At September 30, 2024 the fair value of the Class B LP Units was \$78,368 (December 31, 2023 - \$66,919), resulting in a fair value loss of \$11,449 for the nine-month period (December 31, 2023 - fair value gains of \$22,253).



## 18. SUBSEQUENT EVENTS

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On October 1, 2024 we disposed of an investment property classified as assets held for sale, for net proceeds of \$4,344, resulting from a purchase price of \$4,495 less transaction costs of \$151. The price was settled in cash, excluding mortgage payout and working capital adjustments. Proceeds from the sale were used to repay the outstanding balance of \$1,116 on the mortgage with the remaining cash being used to reduce our borrowings on our credit facility.

On October 23, 2024 we entered into a unconditional agreement to dispose of an investment property, for gross proceeds of \$5,000 less transaction costs. This sale is expected to close on November 22, 2024.