

Management's Discussion & Analysis

March 3, 2022

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 consolidated financial statements and related notes for the year ended December 31, 2021. The discussion outlines strategies and provides analysis of our financial performance for the fourth quarter and the full year.

The financial information in this MD&A, including 2020 comparative information, has been prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted. 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 March 3, 2022. Disclosure contained in this MD&A is current to March 3, 2022, unless otherwise indicated.

Regulatory Filings

Additional information about the REIT, including our annual information form, information circular and quarterly reports, is available on our website at MelcorREIT.ca and on SEDAR at www.sedar.com.

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-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 or 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 2022 and beyond, future leasing, acquisition and financing plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook for 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 also caution readers that the ongoing COVID-19 pandemic has resulted in both new and increased risk, creating significant uncertainty as to the outlook for the REIT. 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.

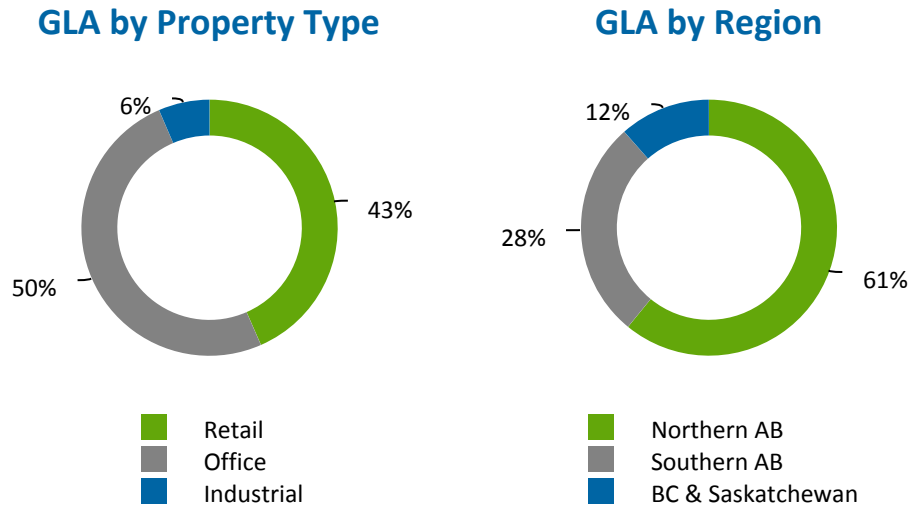
Readers should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Except as may be required by law, we do not undertake to update any forward-looking statement, whether written or oral, made by the REIT or on its behalf.

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Our Business

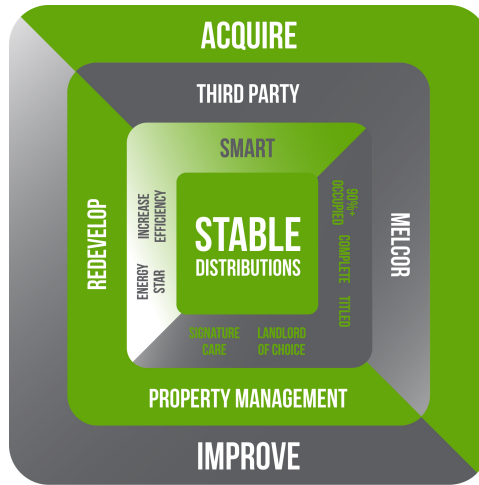
The REIT has an established and diversified portfolio of 39 income-producing office, retail and industrial properties representing 3.22 million square feet (sf) in gross leasable area (GLA) in western Canada. As at December 31, 2021 our portfolio is comprised and characterized as follows:



These high-quality properties feature stable occupancy and a strong mix of tenants, some of whom have been in place for over 25 years. The REIT is externally managed, administered and operated by Melcor Developments Ltd. (Melcor) pursuant to the asset management and property management agreements entered into in conjunction with the Initial Public Offering (IPO). Melcor, a real estate company founded in 1923, has a rich history of growth and performance in real estate development and asset management.

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) through an affiliate and a corresponding number of special voting units of the REIT. The Class B LP units are economically equivalent to, and are exchangeable for, trust units. Melcor is the ultimate controlling party.

Our strategy: **growing and improving our asset base**, and objective: **providing stable monthly cash distributions to unitholders**, were interrupted due to COVID-19. Having been through the past two years, we are incredibly appreciative of our tenants and our team. Both have proved to be resilient, and our solid collection rate demonstrates the strength of our tenants in particular - some who opened their doors over the pandemic and met with remarkable success. We also continued to engage in leasing throughout COVID, which improves our optimism for the future.



Acquire

We continue to seek out suitable acquisitions to expand our asset base as conditions allow. No acquisitions have been completed since 2019 due to COVID related interruptions to normal business operations and the impact on our unit price, resulting in cautious capital outlay.

Please refer to the Significant Event - COVID-19 in our annual MD&A for additional information.

Our acquisition strategy is focused on:

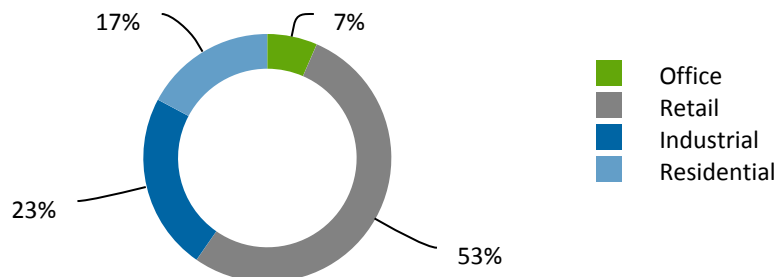
- Increasing penetration in existing geographic markets to exploit competitive advantage,
- Diversifying our property portfolio, and
- Expanding to adjacent geographic markets and asset classes.

We focus on two channels to support our acquisition growth strategy:

- **Acquiring properties via our proprietary pipeline:** As Melcor completes development and leasing of commercial and residential properties, the REIT has a first right to purchase each asset for its portfolio. This organic pipeline is unique to the REIT. Based on projects currently being developed or planned to begin in the near-term, we expect this acquisition pipeline to yield 4.63 million sf of GLA over the next 5-10 years. The REIT also has the opportunity to participate in investment opportunities, joint ventures and mezzanine financing on Melcor projects under the Development and Opportunities Agreement.

Melcor currently has 1,101,292 sf of owned and managed GLA and an additional 6,913 sf of GLA under development. The following chart represents future development projects that have not broken ground. Development plans are updated frequently to match market demand.

Melcor's Planned Development by GLA



Since our IPO in 2013, we have acquired over 1.00 million sf of GLA via our proprietary pipeline. While we continue to monitor the pipeline, we have not vended-in any properties over the past few years due to unit price considerations.

- **Acquiring accretive income-producing properties:** We actively seek strategic third party property acquisitions that fit our SMART investment criteria: properties that have a good Story, are in the right Market, Accretive to ACFO per unit, at the Right price and in

our Target locations. Potential acquisitions include properties where we identify the opportunity to increase value through expansion, redevelopment or improved property management. Our last third party acquisition was in late 2019.

SMART ACQUISITION STRATEGY	
S trategic	Acquisition Targets <ul style="list-style-type: none"> ▪ Stable, accretive properties ▪ Penetrate existing geographic markets ▪ Expand into adjacent markets ▪ Properties with redevelopment and repositioning potential
M arket	
A ccretive	Acquisition & Integration Strengths <ul style="list-style-type: none"> ▪ Proven due diligence process ▪ Agility to quickly execute on decisions ▪ Ability to close within 30 days (preferred access to unmarketed opportunities) ▪ Clustering of properties for efficient management & strong market knowledge
R ight Price	
T argeted	

Improve

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
- 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 and thus retention rates. We enjoy strong, long-term relationships with our clients, some of whom have been with Melcor for over 25 years.

On July 1st we launched MelCARE, our new customer care app, providing tenant's the ability to submit service requests via their mobile device. We anticipate this app will modernize our customer care process while maintaining our dedication to high quality service. Strong customer satisfaction contributes to other key metrics, such as our retention rate, which was a healthy 81.7% in 2021.

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.

CAPITAL EXPENDITURES STRATEGY	
PRESERVE	<ul style="list-style-type: none"> ▪ Inner works (boilers, roofs, maintenance) ▪ Maintain asset value through routine care ▪ Improve efficiencies through upgrades (lower building operating costs) ▪ Driven by annual building & equipment condition assessments
ENHANCE	<ul style="list-style-type: none"> ▪ Visible improvements such as common area upgrades, landscaping and aesthetics as well as improved comfort ▪ Upgrades that help lease buildings and retain tenants ▪ Driven by lease expiries/vacancies and need

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 green. 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 are benchmarking our energy usage to set targets for climate action. In 2020, we received ENERGY STAR certification at our Fountain Tire Place building in Edmonton, AB with a score of 88/100, representing that the building is more energy efficient than 88% of similar buildings nationwide.

In 2021, we resumed our capital investment program after pausing any non-essential spend in 2020.

Capital Recycling

We continually review our asset portfolio to identify opportunities to recycle capital. Our capital recycling strategy focuses on pruning non-core assets with a view to mitigate against market and tenancy exposures and maximize return on investment. No opportunities to recycle capital were identified in 2021.

Key Metrics & 2021 Accomplishments

Metric	Target	2021
Debt/gross book value excluding debentures ⁽¹⁾	50-55%	49 %
Debt/gross book value including debentures ⁽¹⁾	55-60%	58 %
Tenant retention	75 %	81.7 %
Occupancy	90%+	87.1 %
Portfolio diversification		
Retail	40 %	43.4 %
Office	40 %	50.1 %
Industrial	20 %	6.5 %
Weighted average base rent (by sf)		
Retail	\$18.50+	\$20.09
Office	\$14.00+	\$13.61
Industrial	\$10.00+	\$14.75
Customer Care On-time Response	95%+	97 %

(1) Debt to GBV is a Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 36 for further information.

Corporate Sustainability

We are committed to corporate sustainability - in environmental practice, social responsibility, governance of our company and as stewards of the areas where we operate. Attaining best practice in all aspects of our business is our constant aspiration. To ensure that our corporate sustainability goals and practices are meaningfully aligned with our business, Environmental, Social and Governance oversight was added to the Board's mandate in December 2021.

Environmental Commitment

Our property management practices are designed to improve operating efficiency and reduce cost while at the same time increasing client satisfaction and thus retention rates. Our capital spending strategy focuses on equipment upgrades and maintenance initiatives that will reduce energy consumption in our properties.

Examples of our commitment to environmental best practices include:

- All properties have LED lights
- 80% of our buildings have motion-sensing lights that turn off when no one is present
- We have active recycling programs in all buildings
- We engage specialists to monitor and analyze our energy usage and identify potential improvements. Of 12 properties benchmarked from 2012 - 2021 we realized:
 - decreased electricity consumption of 20%
 - decreased natural gas consumption of 6%
 - decreased greenhouse gases by 10,500 tons of CO₂.
- One building achieved ENERGY STAR certification in 2020, recognizing the top 25% most efficient office buildings in Canada. We are tracking other office buildings in our portfolio for this certification.

Social Responsibility

We demonstrate social responsibility through our relationships with tenants and in the communities where we operate. The REIT's asset and property manager, Melcor Developments Ltd. is committed to fostering a diverse, inclusive and safe work environment. Melcor places people at the heart of our strategy and one of three core values is to "empower and care for our exceptional team."

Melcor emphasizes health and wellness for employees, including mental health. The benefit available to employees for psychological services was doubled in 2020. In 2021, managers participated in The Working Mind, management training for recognizing and managing mental health challenges in the workplace. Encouraging managers to check in on the mental and emotional well-being of staff has been a priority.

Being invested in the communities where we do business is an important part of who we are. As we pursue excellence in our business, we also want the communities where we do business to be the best they can be. We give where we live to build strong communities. Our giving and involvement focuses on key pillars of strong communities: education, health, youth, sports, public gathering places such as libraries, and social programs that lend a helping hand to those in need.

This commitment goes beyond financial and volunteer support. We take pride in the way our properties look. Entrances to office buildings have seasonal floral arrangements, beautifying the street. We have public art installations in, on and around a number of our properties. Our focus on relationships extends to our service providers as well. The majority of our service providers are local and many are small businesses that support our local economies.

Diversity & Inclusion

Of the Melcor management team that oversees, leases and manages the REIT's portfolio, 44% are female and 32% are visible minorities. The Melcor REIT Board of Trustees is 33% female.

Effective Governance

We are committed to effective corporate governance practices as a core component of our operating philosophy. Strong governance practices form the foundation of a sustainable company and long-term value creation for unitholders. The REIT's board of trustees reviews our corporate governance practices annually to better align the REIT with industry best practices.

Examples of our commitment to effective corporate governance practices include:

- The majority of our trustees (4 of 6) are independent
- We appoint a lead trustee as the chair is Melcor's nominee and thus a related party
- In 2021, we formally established an Independent Committee to examine the agreements between Melcor Developments Ltd. and the REIT and other matters as directed by the Board. The Independent Committee was chaired by independent and Lead Trustee Larry Pollock. This committee has now concluded its review.
- In 2021, we reviewed our practices and the steps taken in our response to COVID-19 and its potential impact on the REIT. We concluded that our duty of care with respect to protecting the assets, earnings and distributions of the REIT was handled in a responsible manner. We remain focused on securing cash flow sustainability until we have greater certainty on COVID-19's impact on our business.
- All arrangements with Melcor require approval by a majority of our independent trustees, providing independent oversight on all transactions to represent the interests of minority unitholders
- The audit and compensation and governance committees are both comprised of 100% independent trustees.
- Half of the REIT's independent trustees are female
- Half of the REIT's executive team is female

SIGNIFICANT EVENT - COVID-19

With lock-downs, business interruptions, occupancy limits and the rollout of the restrictions exemption program in our primary market of Alberta, the COVID-19 global pandemic has had a material impact on some of our tenants. Alberta announced a three step plan to ease public health measures in February 2022; however, the long-term impact of COVID-19 related economic stressors on our tenants remains to be seen. It is difficult to estimate the future impact to the REIT's financial performance, and because of this future results could be materially different from current estimates.

Melcor, as the REIT's property manager, continues to focus on responding quickly as the situation changes, implementing various measures to provide safe and clean work environments and keep our tenants and visitors to our properties safe while doing our part to slow the spread.

We have and will continue to work with tenants on a case by case basis to implement lease amendments where appropriate, depending on the tenant's financial need and potential access to government relief programs. These arrangements demonstrate our continued solidarity and partnership with our tenants to provide them with the best opportunity to endure the pandemic and be successful in the long-term. We are all in this together. We see ourselves as partners with our tenants and our main objective is to help each other survive and thrive.

We continue to actively monitor COVID-19 developments and the associated government guidelines to ensure a healthy and safe environment.

Operations Update

At the beginning of the COVID-19 pandemic we undertook a series of measures to conserve cash and place the REIT in a position to support our tenants. Our financial results have remained steady and the majority of the measures have ended. The measures that were previously in place, along with the bad debt discussion below significantly impact the comparative period results. These events make comparison of results less meaningful than such comparison in normal non-pandemic periods.

During 2021 we:

- Increased our monthly distributions to \$0.04 per unit for the months of August to December 2021. This is a 14% increase from the previous (July) monthly distribution of \$0.035 per unit and a 33% increase from the December 2020 distribution of \$0.03 per unit. On January 17, 2022, February 15, 2022 and March 3, 2022, the REIT announced monthly distributions of \$0.04 per unit.
- Restarted our capital program following deferral of discretionary capital spending in 2020. Our capital plan includes strategic asset enhancement and preservation projects with a focus on equipment upgrades and maintenance initiatives that will reduce energy consumption at our properties. Our planned spend for 2022 is \$3.70 million.

Collections & Bad Debt Update

We continue to provide temporary relief to our tenants on an as-needed basis. We collected 97% of fourth quarter rent and 99% of rent during 2021 (excluding amounts owing and receivable related to 2020 year end reconciliation). \$1.25 million remains in outstanding arrears, of which \$0.04 million has been deferred and a further \$0.52 million has been provided for as bad debt. The majority of our tenants are working cooperatively with us in finding mutually acceptable arrangements for repayment of arrears and we expect to collect deferred and uncollected amounts, other than those provided for as bad debt.

We recognized \$1.75 million in bad debt expense for the year ended December 31, 2020, an unprecedented amount for the REIT. In 2021, we recovered a small amount of previously recognized bad debt in the first and third quarters, resulting in a \$0.06 million year-to-date bad debt expense and returning the REIT to more typical bad debt expense levels. Government programs aimed at supporting businesses through the pandemic, including Canada Emergency Rent Subsidy (CERS) and Canada Emergency Wage Subsidy (CEWS) remain available to "hard hit employers" until March 2022. It is too early to anticipate the impact of this new change on our tenants and caution readers that bad debt may become elevated again in the future.

The following table illustrates our outstanding billed receivables (excluding deferred amounts), deferrals and allowances by asset class. Accrued and other receivables of \$1.27 million (2020 - \$0.83 million) are not reflected in the figures below. Annual recovery reconciliations are posted to ledgers in March of the following year.

Tenant Receivables and Provisions (\$000s)						
	December 31, 2021			December 31, 2020		
	Tenant Billed Receivables	Deferred Tenant Receivables	Allowance for Doubtful Accounts	Tenant Billed Receivables	Deferred Tenant Receivables	Allowance for Doubtful Accounts
Retail	905	7	(440)	1,476	376	(499)
Office	296	37	(78)	774	63	(303)
Industrial	–	–	–	39	–	–
Other	3	–	–	8	–	–
Total	1,204	44	(518)	2,297	439	(802)

In addition to deferral arrangements, the REIT has entered into lease amendments with some tenants to provide short-term rent relief. These arrangements underscore our ongoing partnerships with our tenants in strategic efforts to increase tenant retention for the long-term.

We believe that the relationships that we continually build with our tenants are a key factor in our strong rental collection rates throughout this challenging period. Based on current conditions, we expect rent collections to remain stable; however, we caution that despite all efforts, there could be an increase in tenant delinquencies due to the lingering impacts of COVID-19.

2021 Highlights & Key Performance Indicators

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 on page 36.

Financial Highlights						
(\$000s)	Three-months ended December 31			Year ended December 31		
	2021	2020	△%	2021	2020	△%
Non-Standard KPIs						
Net operating income (NOI) ⁽⁵⁾	11,640	12,186	(4)%	47,764	46,456	3%
Same-asset NOI ⁽⁵⁾	11,640	12,186	(4)%	47,764	46,456	3%
Funds from Operations (FFO) ⁽⁵⁾	6,371	6,590	(3)%	26,681	25,250	6%
Adjusted Funds from Operations (AFFO) ⁽⁵⁾	4,608	5,144	(10)%	20,005	18,127	10%
Adjusted Cash Flows from Operations (ACFO) ⁽⁵⁾	7,675	5,283	45%	20,593	18,582	11%
Rental revenue	18,542	18,742	(1)%	74,094	74,572	(1)%
Income before fair value adjustment and taxes ⁽⁵⁾	5,139	4,248	21%	15,287	14,396	6%
Fair value adjustment on investment properties ⁽¹⁾	214	(2,917)	nm	2,879	(62,748)	nm
Cash flow from operations	3,927	2,832	39%	14,881	13,786	8%
Distributions to unitholders	1,213	1,174	3%	5,778	5,739	1%
Distributions ⁽²⁾	\$0.12	\$0.09		\$0.45	\$0.44	
Per Unit Metrics						
Net (loss)/income						
Basic	\$0.98	(\$1.20)		(\$1.25)	\$0.44	
Diluted	\$0.98	(\$1.20)		(\$1.25)	(\$1.38)	
Weighted average number of units for net income/ (loss) (\$000s): ⁽³⁾						
Basic	12,995	13,050	–%	12,989	13,074	(1)%
Diluted	12,995	13,050	–%	12,989	29,200	(56)%
FFO						
Basic ⁽⁶⁾	\$0.22	\$0.23		\$0.92	\$0.86	
Diluted ⁽⁶⁾	\$0.21	\$0.21		\$0.87	\$0.83	
Payout ratio ⁽⁶⁾	55%	40%		49%	51%	
AFFO						
Basic ⁽⁶⁾	\$0.16	\$0.18		\$0.69	\$0.62	
Payout ratio ⁽⁶⁾	76%	51%		65%	71%	
ACFO						
Basic ⁽⁶⁾	\$0.26	\$0.18		\$0.71	\$0.64	
Payout ratio ⁽⁶⁾	46%	50%		63%	69%	
Weighted average number of units for FFO, AFFO & ACFO (000s): ⁽⁴⁾						
Basic	29,114	29,176	–%	29,114	29,200	–%
Diluted	36,290	36,344	–%	36,290	36,368	–%

(1) The abbreviation nm is shorthand for not meaningful and is used through this MD&A where appropriate.

(2) Distributions for the current periods have been paid out at a rate of \$0.035 per unit per month from January to July and at a rate of \$0.04 per unit for August and December. Distributions for the comparative periods have been paid out at a rate of \$0.05625 per unit per month from January to March 2020 and at a rate of \$0.03 per unit from April 2020 onward.

(3) For the purposes of calculating per unit net income the basic weighted average number of units includes Trust Units and the diluted weighted average number of units includes Class B LP Units and convertible debentures, to the extent that their impact is dilutive.

(4) For the purposes of calculating per unit FFO, AFFO and ACFO the basic weighted average number of units includes Trust Units and Class B LP Units.

(5) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 36 for further information.

(6) Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 36 for further information.

	31-Dec-21	31-Dec-20	△%
Total assets (\$000s)	735,668	724,658	2%
Equity at historical cost (\$000s) ⁽¹⁾	288,234	289,055	–%
Indebtedness (\$000s) ⁽²⁾	446,769	449,658	(1)%
Weighted average interest rate on debt	3.62%	3.68%	(2)%
Debt to GBV, excluding convertible debentures (maximum threshold - 60%) ⁽⁵⁾	49%	50%	(1)%
Debt to GBV (maximum threshold - 65%) ⁽⁵⁾	58%	59%	(1)%
Finance costs coverage ratio ⁽³⁾	2.45	2.34	5%
Debt service coverage ratio ⁽⁴⁾	2.06	2.53	(19)%

(1) Calculated as the sum of trust units and Class B LP Units at their historical cost. In accordance with IFRS the Class B LP Units are presented as a financial liability in the consolidated financial statements. Please refer to page 22 for the 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, excluding unamortized fair value adjustment on Class C LP Units and convertible debentures, excluding unamortized discount and transaction costs. Please refer to page 22 for the calculation of Indebtedness.

(3) 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 page 36 for further discussion and analysis.

(4) 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 page 36 for further discussion and analysis.

(5) Debt to GBV is a Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 36 for further information.

Operational Highlights

	31-Dec-21	31-Dec-20	△%
Number of properties	39	39	–%
Gross leasable area (GLA) (sf)	3,216,175	3,208,298	–%
Occupancy (weighted by GLA)	87.1%	87.6%	(1)%
Retention (weighted by GLA)	81.7%	82.8%	(1)%
Weighted average remaining lease term (years)	3.86	3.96	(3)%
Weighted average base rent (per sf)	\$16.73	\$16.67	–%

Highlights:

NOI grew 3% over 2020. We continued to proactively renew leases with existing tenants and achieved a healthy retention rate of 81.7% for the year. We also continue to pursue new tenant opportunities and commenced 76,639 sf in new leases in 2021. Occupancy remained stable at 87.1%. This positive leasing performance contributed to growth in NOI, FFO, AFFO and ACFO in the year. Due to COVID-19 related anomalies, prior year comparisons are less meaningful with impacts ranging from reduced spending to elevated bad debt.

Other factors that contributed to year over year changes in results include:

- **Non-cash Fair Value Adjustments:** Non-cash fair value adjustments on REIT units and investment properties often cause dramatic swings in results. The change in unit price has a counter-intuitive impact on net income, as an increase in unit value decreases net income. The 41% increase in the trading price of the REIT's units compared to December 31, 2020 resulted in a \$31.61 million year-to-date loss on the valuation of our Class B LP Units. In the comparative period, net income was also significantly impacted by fair value adjustments on investment properties due to revaluation of the entire portfolio in Q2-2020. This event had a significant impact to net income in both the current and prior periods, making comparison less meaningful, and a reason management prefers FFO and ACFO as better measures of our performance.
- **Early Termination event:** In Q1-2021, we received \$1.00 million for the early lease termination of a fast food chain occupying 6,384 sf in Leduc Common. The tenant made up 0.4% of 2020 base rent and had 11 years remaining on a 20 year lease. Early termination also resulted in \$0.19 million in reduced straight-line rent (SLR) adjustments.
- **Distribution Increase:** In August 2021, we increased our monthly distribution by 14% to \$0.04 per unit. Since December 2020, we have increased our monthly distribution by 33%.

FINANCIAL HIGHLIGHTS

- Revenue was steady during the year at \$74.09 million (2020 - \$74.57 million) and net operating income (NOI) was up 3%.
- FFO was up 6% to \$26.68 million or \$0.92 per unit at December 31, 2021 (2020 - \$25.25 million or \$0.86 per unit) as a direct result of higher NOI. Management believes FFO is a better reflection of our true operating performance.
- Adjusted cash from operations (ACFO) was \$20.59 million or \$0.71 per unit (2020 - \$18.58 million or \$0.64 per unit) due to increased FFO, fluctuation in SLR and the Early Termination event impact on other revenue. Management believes that ACFO best reflects our cash position and therefore our ability to pay distributions.

- Net income in the current and comparative period is significantly impacted by the Non-cash Fair Value Adjustments described above.
- We re-financed eight mortgages during the year at a weighted average interest rate of 2.77% for proceeds of \$74.29 million (net \$20.02 million).
- As at December 31, 2021 we had \$7.26 million in cash and \$35.00 million in additional capacity under our revolving credit facility.

OPERATING HIGHLIGHTS

We continued to execute on our proactive leasing strategy to both retain existing and attract new tenants. We completed lease renewals representing 240,006 sf (including holdovers) for a retention rate of 81.7% at December 31, 2021. New leasing has been steady across the portfolio with 76,639 sf in new deals commencing in 2021 and an additional 127,358 sf committed for future occupancy. Occupancy was also relatively stable at 87.1%.

CREATING UNITHOLDER VALUE

We increased our distributions beginning in August by 14% to \$0.04 per unit compared to \$0.035 per trust unit January through July for a FFO payout ratio of 49% (2020 - 51%) and an ACFO payout ratio of 63% (2020 - 69%).

On April 1, 2021 we commenced a new NCIB to buy back our trust units. We are entitled to purchase up to 652,525 trust units for cancellation, representing approximately 5% of the REIT's issued and outstanding trust units. The maximum daily purchase limit is 3,824 units, purchased at market price. Including units purchased under the prior NCIB, we purchased a total of 85,683 units for \$0.53 million in 2021. The NCIB ends on March 31, 2022.

SUBSEQUENT EVENTS

Subsequent to December 31, 2021, we declared the following distributions:

Month	Record Date	Distribution Date	Distribution Amount
January 2022	January 31, 2022	February 15, 2022	\$0.04 per unit
February 2022	February 28, 2022	March 15, 2022	\$0.04 per unit
March 2022	March 31, 2022	April 15, 2022	\$0.04 per unit

Consolidated Revenue & Net Operating Income

(\$000s)	Year ended December 31		
	2021	2020	△%
Base rent	48,271	48,433	– %
Recoveries	26,315	26,702	(1)%
Other	3,518	2,561	37 %
Amortization of tenant incentives	(4,218)	(3,779)	12 %
Straight-line rent adjustments	208	655	(68)%
Rental revenue	74,094	74,572	(1)%
Operating expenses	14,558	15,372	(5)%
Utilities and property taxes	15,782	15,868	(1)%
Direct operating expenses	30,340	31,240	(3)%
Net rental income	43,754	43,332	1 %
NOI⁽¹⁾	47,764	46,456	3 %
Same-asset NOI⁽¹⁾	47,764	46,456	3 %
Operating margin⁽²⁾	59 %	58 %	2 %

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 36 for further information.

(2) Supplementary financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 36 for further information.

Revenue

Rental revenue was flat over 2020. During the year higher other revenue offset lower rent revenue (base rent and straight-line rent adjustments). Other revenue was up due to the Early Termination event in the first quarter resulting in \$1.00 million in lease break fees.

In 2021 we completed 240,006 sf of lease renewals (including holdovers) and had 76,639 sf in new leases commence for steady occupancy of 87.1%. While the market is slightly soft, activity and opportunity across our portfolio in all asset classes continues.

The table below summarizes leasing activity for 2021:

	Square feet	Weighted average base rent (per sf)	Occupancy %
Opening occupancy	2,808,964	\$16.67	87.6 %
Expiring leases	(293,663)	\$17.61	
Other terminations	(39,715)	\$17.61	
Renewals/holdovers	240,006	\$18.25	
New leasing	76,639	\$15.71	
Lease amendments	8,000	–	
Closing occupancy	2,800,231	\$16.73	87.1 %

Weighted average base rent was up to \$16.73 and occupancy was down at 87.1% (2020: \$16.67 and 87.6%). Rates on new leasing and renewals/holdovers are impacted by lease structure and asset class and can vary significantly from period to period.

The table below summarizes the REIT's average base rent, GLA, occupancy and retention:

	Dec 31, 2021	Dec 31, 2020	△%
Weighted average base rent (per sf)	\$16.73	\$16.67	– %
Weighted average remaining lease term	3.86	3.96	(3)%
GLA	3,216,175	3,208,298	– %
Occupancy	87.1 %	87.6 %	(1)%
Retention	81.7 %	82.8 %	(1)%

Recoveries are amounts recovered from tenants for direct operating expenses incurred and include a nominal administrative charge. We typically expect recovery revenue to correlate with changes in recoverable operating expenses. Recovery revenue was flat while direct operating expenses decreased 3% over 2020. Our recovery ratio (recoveries divided by direct operating expenses) was slightly increased over 2020 due to elevated bad debt in the comparative period. Excluding this anomaly, our recovery ratio was down 5% over 2020 due to a higher proportion of gross leases and fluctuations in expenditures incurred within the portfolio year to year.

Other revenue is comprised of parking revenue and other miscellaneous revenue that is ancillary to our business and fluctuates from period to period. In the first quarter of 2021 we recognized \$1.00 million for the Early Termination event.

Amortization of tenant incentives can fluctuate based on the timing of lease rollovers and leasing incentives. Straight-line rent (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. The Early Termination event, in conjunction with COVID related lease restructures contributed to lower SLR in 2021.

Direct operating expenses

Property taxes and utilities were down slightly over 2020. Utility costs related to air conditioning during abnormal heatwaves across western Canada in the summer of 2021, were offset by reduced consumption during periods of work from home mandates and reduced property taxes across the portfolio as a result of lower assessments.

Operating expenses were down 5% over 2020 due to the comparative period elevated bad debt. Excluding bad debt, operating expenses were up 9% over 2020. We have recognized \$0.06 million in bad debt expense in 2021 (2020 - \$1.04 million and an additional \$0.71 million related to CECRA provisions).

Overall, direct operating expenses were down 3% over 2020 due to elevated bad debt in the comparative period.

NOI and Same-Asset NOI

Net operating income (NOI) and same-asset NOI are non-GAAP financial measures 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 Measures section starting on page 36 of this MD&A for more information.

NOI and same-asset NOI were up 3% over 2020 due to lease termination fees received from the Early Termination event in 2021, partially offset by elevated bad debt expense in 2020.

The calculation of same-asset NOI is as follows (refer to Non-standard Measures for calculation of NOI and reconciliation to net income):

(\$000s)	Year ended December 31		△%
	2021	2020	
Same-asset NOI ⁽¹⁾	47,764	46,456	3 %
NOI ⁽¹⁾	47,764	46,456	3 %
Amortization of tenant incentives	(4,218)	(3,779)	
Straight-line rent adjustments	208	655	
Net rental income	43,754	43,332	1 %

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 36 for further information.

For 2021 and the comparative period, same-asset NOI is equal to NOI as there have been no asset acquisitions or dispositions in either period.

Property Profile

At December 31, 2021 our portfolio includes interests in 39 retail, office and industrial income-producing properties located in western Canada for a total of 3,216,175 sf of GLA, and a land lease community.

The following table summarizes the composition of our properties by property type:

Property Type	Number of Properties	GLA (sf)/Lots	% of Portfolio (GLA)	Fair Value of Investment Properties (\$000s) ⁽¹⁾	Net Rental Income 2021 (\$000s)
Retail	14	1,397,242	43.4 %	405,102	25,559
Office	21	1,610,842	50.1 %	264,452	14,396
Industrial	3	208,091	6.5 %	37,975	2,833
Land Lease Community	1	308 lots	n/a	16,200	966
	39	3,216,175	100.0 %	723,729	43,754

(1) Supplementary financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 36 for further information.

The following table details key financial and operational metrics for each property type for the years ended December 31:

	Retail		Office		Industrial		Land Lease Community	
	2021	2020	2021	2020	2021	2020	2021	2020
Year ended December 31 (\$000s)								
Rental revenue	38,214	37,900	30,882	31,564	3,629	3,738	1,369	1,370
Net rental income	25,559	24,573	14,396	14,820	2,833	2,927	966	1,012
Same-asset NOI ⁽¹⁾	26,250	24,616	17,455	17,763	3,093	3,065	966	1,012
As at December 31								
Weighted average base rent (sf)	\$20.09	\$19.95	\$13.61	\$13.82	\$14.75	\$14.12	n/a	n/a
Occupancy	91.9 %	90.7 %	81.2 %	83.2 %	100.0 %	100.0 %	100.0 %	100.0 %

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 36 for further information.

Retail - our 14 retail properties include 6 multi-building retail power centres, 7 neighborhood shopping centres and a single tenant property. Rental revenue was slightly up over 2020 due to the Early Termination event. Excluding lease termination fees, rental revenue remained stable over the comparative period. Same-asset NOI was up 7% over 2020. Excluding lease termination fees, NOI was up 3%, due in part to comparative period bad debts expense. Occupancy was up 1.2% over 2020, due to new leasing during the year. Retail tenant retention was 94.3% in 2021.

Office - our 21 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. Rental revenue was slightly down over 2020 due to lower occupancy, with 7 unscheduled tenant terminations (including both month to month tenants and termination right exercises) vacating 20,000 sf. Office tenant retention was 69.7% in 2021. Ongoing competition for downtown Edmonton office tenants and the impact on the suburban market continues to drag on the portfolio. Same-asset NOI was flat over 2020.

Industrial - our 3 industrial properties include single and multi-tenant buildings. Our assets remained fully occupied through 2021. Rental revenue was down 3% as a result of higher other revenue in the comparative period. Weighted average base rents was up \$0.63 due to rent step-ups on two leases during 2021, offset by lower other revenue and non-cash adjustments related to straight-line rent adjustments. Same-asset NOI was flat over 2020.

Land Lease Community - we have one land lease community in Calgary, AB consisting of 308 pad lots. It was 100% occupied at December 31, 2021 (2020 - 100%). Revenue and NOI on our land lease community was stable in 2021.

Regional Analysis

The following table summarizes the composition of our properties at December 31, 2021 by geographic region:

Geographic Region	Number of Properties	GLA (sf)	% of Portfolio (GLA)	Fair Value of Investment Properties (\$000s) ⁽¹⁾	Net Rental Income 2021 (\$000s)
Northern Alberta	22	1,958,744	60.9 %	432,252	24,777
Southern Alberta	10	887,209	27.6 %	226,431	15,108
Saskatchewan & British Columbia	7	370,222	11.5 %	65,046	3,869
	39	3,216,175	100.0 %	723,729	43,754

(1) Supplementary financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 36 for further information.

The following table details key financial and operational metrics for each of our geographic regions for the years ended December 31:

	Northern Alberta		Southern Alberta		Saskatchewan & British Columbia	
	2021	2020	2021	2020	2021	2020
Year ended December 31 (\$000s)						
Rental revenue	43,966	44,246	22,888	23,293	7,240	7,033
Net rental income	24,777	24,556	15,108	15,082	3,869	3,694
Same-asset NOI ⁽¹⁾	27,573	26,690	15,865	15,674	4,326	4,092
As at December 31						
Weighted average base rent (per sf)	\$17.23	\$17.15	\$17.22	\$17.10	\$13.08	\$13.21
Occupancy	83.6 %	83.8 %	92.8 %	95.0 %	91.8 %	89.8 %

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 36 for further information.

Northern Alberta - our Northern Alberta assets are located throughout the greater Edmonton area, including Leduc, Spruce Grove, Red Deer and Grande Prairie. Rental revenue and net rental income were stable over 2020. Same-asset NOI increased 3% due to the Early Termination event and comparative period bad debts. Excluding the early termination fees, NOI was flat over 2020.

Southern Alberta - our Southern Alberta assets are located throughout the greater Calgary area, including Chestermere, Airdrie and Lethbridge. Rental revenue, net rental income and same-asset NOI were stable over 2020 as decreased occupancy was offset by increased weighted average base rent.

Saskatchewan and British Columbia - our Saskatchewan and British Columbia assets are located in Regina, Saskatchewan and Kelowna, British Columbia. Rental revenue was up by 3% and same-asset NOI was up 6% with 11,000 sf of new leases commencing in 2021.

General & Administrative Expense

(\$000s)	Year ended December 31		△%
	2021	2020	
Asset management fee	1,916	1,916	- %
Professional fees	394	483	(18)%
Public company costs	313	281	11 %
Other	330	363	(9)%
	2,953	3,043	(3)%

General & administrative (G&A) expense were \$2.95 million (4% of rental revenue) in 2021. G&A was down 3% due to decreased professional fees. Asset management fees, which are based on the gross book value of the portfolio, remained consistent with the comparative period as a result of no acquisitions or dispositions being completed in 2021 or the comparative period. Professional fees decreased due to the complete portfolio revaluation in the comparative period where only scheduled properties were revalued in 2021. Public company costs were up as trustee remuneration was increased to pre-COVID remuneration in the year. We are committed to prudent financial stewardship and carefully monitor discretionary G&A expenses to ensure maximum value to our unitholders. We expect G&A to be approximately 5% of rental revenue.

Finance Costs

(\$000s)	Year ended December 31		△%
	2021	2020	
Interest on mortgages payable and revolving credit facility	11,314	11,346	– %
Interest on Class C LP Units	1,550	2,368	(35)%
Amortization of fair value adjustment on Class C LP Units	–	(98)	(100)%
Interest on convertible debentures	3,553	3,554	– %
Accretion on convertible debentures	588	553	6 %
Fair value adjustment on derivative instruments	2,847	(1,063)	nm
Amortization of deferred financing fees	1,363	1,167	17 %
Finance costs before distributions	21,215	17,827	19%
Distributions on Class B LP Units	7,176	7,075	1 %
Finance costs	28,391	24,902	14 %

Finance costs were up \$3.49 million or 14% over 2020 as a result of fair value adjustments on our derivative instruments and amortization of deferred financing fees offset by reduced interest on Class C LP units. Excluding the impact of fair value adjustments, finance costs decreased \$0.42 million or 2%.

Interest on mortgages payable and revolving credit facility was flat over 2020 with lower usage on our line of credit in 2021 offsetting higher mortgage indebtedness. Lower interest on Class C LP units was due to repayments made in the past twelve months, which reduced the outstanding balance.

Distributions on Class B LP Units are recorded and paid to holders equal to those declared on trust units (\$0.445 per unit during the year). Distributions in the quarter were \$0.12 per unit, up 4% compared to Q3-2021, and up 14% when compared to both Q2-2021 and Q1-2021. Annualized distributions on Class B LP Units stabilized in 2021.

As at December 31, 2021, the weighted average interest rate on our revolving credit facility, mortgages payable, Class C LP Units and convertible debentures was 3.62% based on period end balances (December 31, 2020 – 3.68%).

Income Taxes

As at December 31, 2021, 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.

Funds from Operations, Adjusted Funds from Operations & Adjusted Cash Flow From Operations

Funds From Operations (FFO), Adjusted Funds From Operations (AFFO) and Adjusted Cash Flow From Operations (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 starting on page 36 of this MD&A for more information.

Funds from operations & adjusted funds from operations

REALpac defines Funds From Operations (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.

	Year ended December 31		
(\$000s, except per unit amounts)	2021	2020	△%
Net (loss) income for the year	(16,287)	5,763	
Add / (deduct)			
Fair value adjustment on investment properties	(2,879)	62,748	
Fair value adjustment on Class B LP Units	31,606	(53,052)	
Amortization of tenant incentives	4,218	3,779	
Distributions on Class B LP Units	7,176	7,075	
Fair value adjustment on derivative instruments	2,847	(1,063)	
Funds From Operations (FFO)⁽¹⁾	26,681	25,250	6 %
Deduct			
Straight-line rent adjustments	(208)	(655)	
Normalized capital expenditures	(2,352)	(2,349)	
Normalized tenant incentives and leasing commissions	(4,116)	(4,119)	
Adjusted Funds from Operations (AFFO)⁽¹⁾	20,005	18,127	10 %
FFO/Unit⁽²⁾	\$0.92	\$0.86	
AFFO/Unit⁽²⁾	\$0.69	\$0.62	
Weighted average number of units (000s): ⁽³⁾	29,114	29,200	– %

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 36 for further information.

(2) Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 36 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.

Our convertible debentures can be converted into trust units at the holder's option and are considered dilutive instruments. The following table calculates diluted FFO and diluted FFO/Unit:

	Year ended December 31		
(\$000s, except per unit amounts)	2021	2020	△%
Funds From Operations (FFO)⁽¹⁾	26,681	25,250	6 %
Convertible debentures interest	3,553	3,554	
Amortization of deferred financing fees	735	682	
Accretion on convertible debentures	588	553	
Funds From Operations - Diluted (FFO - Diluted)⁽¹⁾	31,557	30,039	5 %
FFO - Diluted/Unit⁽²⁾	\$0.87	\$0.83	
Diluted weighted average number of units (000s):⁽³⁾	36,290	36,368	– %

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 36 for further information.

(2) Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 36 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 investments that enhance property quality, which contributes to higher occupancy and rental rates. These upgrades typically focus on increasing operating efficiency, property attractiveness, functionality and desirability, as well as initiatives focused on sustainability and energy reduction strategies to ensure our buildings are green. 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 capital expenditures exclude new property development initiatives such as densification and non-recoverable capital 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.

For the years ended December 31 (\$000s)	2021	2020
Investment in property improvements	2,322	1,473
Less non-recoverable	—	(520)
Actual capital expenditures	2,322	953
Normalized capital expenditures	2,352	2,349
Variance	(30)	(1,396)

Actual capital expenditures were below normalized capital expenditures by \$0.03 million for the twelve-months ended December 31, 2021 (2020 - \$1.40 million). In the comparative period actual capital expenditures includes \$0.52 in non-recoverable capital related to discretionary projects undertaken as pertains to redevelopment and rehabilitation of certain properties and tenants' spaces. In order to strengthen the REIT's flexibility to respond to and support tenants through COVID-19, in the comparative period the REIT deferred approximately \$1.30 million in planned capital expenditures.

Tenant Incentives & 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, with higher tenant incentives carrying higher base rent. 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 historical actual spend plus 5 year projected spend.

The following summarizes our actual expenditures compared to normalized amounts:

For the years ended December 31 (\$000s)	2021	2020
Actual tenant incentives and direct leasing expenditures	6,246	4,479
Normalized tenant incentives and direct leasing expenditures	4,116	4,119
Variance	2,130	360

Actual tenant incentives and direct leasing expenditures were higher than normalized amounts due to the timing and type of leasing activity combined with current market conditions. There is currently insufficient information to determine the impact of COVID-19 on our projected spending.

Adjusted cash flows from operations

REALpac defines Adjusted Cash Flow from Operations (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. We will continue to focus our discussion and performance analysis on ACFO.

	Year ended December 31		
(\$000s)	2021	2020	△%
Cash flows from operations	14,881	13,786	8 %
Distributions on Class B LP Units	7,176	7,075	
Actual payment of tenant incentives and direct leasing costs	6,130	5,566	
Changes in operating assets and liabilities	237	(210)	
Amortization of deferred financing fees	(1,363)	(1,167)	
Normalized capital expenditures	(2,352)	(2,349)	
Normalized tenant incentives and leasing commissions	(4,116)	(4,119)	
Adjusted Cash Flows from Operations (ACFO)⁽¹⁾	20,593	18,582	11 %
ACFO/Unit⁽²⁾	\$0.71	\$0.64	
Weighted average number of units (000s) ⁽³⁾	29,114	29,200	– %

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 36 for further information.

(2) Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 36 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 from August 2021 onward and previously \$0.035 per unit from January to July. In 2020 distributions to unitholders were \$0.05625 per unit from January to March, and \$0.03 per unit from April to December. Distributions to unitholders during the year were \$5.78 million (2020 - \$5.74 million).

Distributions made during the year ended December 31, 2021 represent a payout ratio of approximately 63% of ACFO (2020 - 69%). On an FFO basis, distributions represent a payout ratio of 49% (2020 - 51%).

We use ACFO in evaluating our ability to continue to fund distributions. The most similar IFRS measure is cash flow from operations. Due to the uncertainty surrounding the full impacts and duration of the COVID-19 pandemic, the distribution was reduced by 47% in the second quarter of 2020 to ensure near-term liquidity and the sustainability of future distributions. In response to improved business conditions, financial results and our outlook for 2021 we increased the distribution by 17% (\$0.035 per unit) in January and a further 14% in August 2021 (\$0.04 per unit) when compared to the December 2020 distribution (\$0.03 per unit). Cash flow from operations, which includes Class B LP Unit distributions as a financing charge, exceeded distributions by \$9.10 million in 2021 (2020 - \$8.05 million) as illustrated below:

	Year ended December 31		
(\$000s)	2021	2020	△%
Cash flows from operations	14,881	13,786	8 %
Distributions on Class B LP Units	7,176	7,075	1 %
Cash flows from operations before Class B LP Unit distributions	22,057	20,861	6 %
Distributions to unitholders	(5,778)	(5,739)	1 %
Distributions on Class B LP Units	(7,176)	(7,075)	1 %
Total distributions	(12,954)	(12,814)	1 %
Cash flows from operations before Class B LP Unit distributions less total distributions	9,103	8,047	13 %
Total distributions as a % of cash flows from operations before Class B LP Unit distributions	59 %	61 %	(3)%

Investment Properties

As at December 31, 2021 we owned 39 income-producing office, retail and industrial properties representing 3.22 million sf in GLA and a fair value of \$723.73 million. The change in the fair value of our portfolio is summarized as follows:

	Fair Value of Portfolio ⁽¹⁾
Balance, December 31, 2020	716,292
Additions:	
Property improvements	2,322
Direct leasing costs	950
Tenant inducements additions	5,296
Straight-line rent adjustments	208
Amortization of tenant incentives	(4,218)
Fair value adjustment on investment properties	2,879
Balance, December 31, 2021	723,729

(1) Supplementary financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 36 for further information.

Additions – during 2021 we invested \$2.32 million in asset enhancement and preservation projects as part of our strategy to improve our assets to retain and attract tenants. The majority of improvement expenditures are recoverable from tenants over 5-25 years. We also spent \$6.25 million on tenant inducements and direct leasing costs in connection with 316,645 sf of leasing completed during the year.

Fair value adjustment – 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:

	Dec 31, 2021	Dec 31, 2020
Number of properties	39	39
Total GLA (sf)	3,346,274	3,338,397
GLA (REIT owned %) (sf)	3,216,175	3,208,298
Fair value of portfolio (\$000s)	723,729	716,292
Value per square foot	\$225	\$223
NOI (\$000s)	47,764	46,456
Weighted average capitalization rate	6.81 %	7.00 %
Weighted average terminal cap rate	6.90 %	6.92 %
Weighted average discount rate	7.86 %	8.02 %

For the year ended December 31, 2021, Melcor's Internal valuation team performed the valuation assessment. In 2021, 10 phases of 53 legal phases with a fair value of \$130.25 million were valued by qualified independent external valuations professionals. Valuations performed during the year resulted in fair value gains of \$2.88 million for the year. In 2020, the REIT's entire portfolio with a fair value of \$716.29 million was valued by qualified independent external valuation professionals, resulting in a fair value loss of \$62.75 million. Please refer to note 25 to the consolidated statements for additional information on the calculation of fair value adjustments.

Phases are a result of the property development process when a larger project is developed over an extended period of time and subdivided into legal phases for increased flexibility. As leases turn over, unit and/or building GLA is remeasured, resulting in changes to GLA.

A breakdown of our fair value adjustment on investment properties by geographic region is as follows:

For the years ended December 31 (\$000s)	2021	2020	\$△
Northern Alberta	1,273	(40,553)	41,826
Southern Alberta	2,089	(18,488)	20,577
Saskatchewan & British Columbia	(483)	(3,707)	3,224
	2,879	(62,748)	65,627

We recognized gains on eight assets during the year, one Edmonton area office property; two Edmonton area retail properties; and five Calgary area retail properties (on account of a 25 bps decrease in cap rates). We recognized losses on one asset during the year, a Calgary area office

property due to a decrease in average market rents. There were no other significant changes to fair value during the year. Fair value adjustments represent a change of less than 1% in the fair value of our portfolio.

The REIT will continue to monitor its portfolio and the market in assessing fair value changes and cautions readers that further fair value adjustments may be required in the future.

Fair values are most sensitive to changes in capitalization rates.

	December 31, 2021			December 31, 2020		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	5.50%	10.00%	6.81%	5.50%	10.00%	7.00%
Terminal capitalization rate	5.75%	9.00%	6.90%	5.75%	9.00%	6.92%
Discount rate	6.25%	9.75%	7.86%	6.25%	9.75%	8.02%

A capitalization rate increase of 50 basis points (+0.5%) would decrease the fair value of investment properties by \$49.67 million (2020 - \$47.93 million) while a 50 basis points decrease (-0.5%) would increase it by \$57.54 million (2020 - \$55.31 million).

Capitalization rates are influenced by many property specific factors and vary significantly within the portfolio due to the size and composition of our assets. Capitalization rates by property type are as follows:

	December 31, 2021			December 31, 2020		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Retail	5.50%	8.25%	6.65%	5.50%	8.50%	6.84%
Office	5.75%	10.00%	7.25%	6.00%	10.00%	7.44%
Industrial	6.50%	9.00%	7.07%	6.75%	9.00%	7.35%

Liquidity & Capital Resources

We employ a range of strategies to fund operations and facilitate strategies 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.

Within the comparative period we had cash conservation strategies in place to ensure long-term sustainability. We remain mindful of our cash position.

Cash Flows

The following table summarizes cash flows from operating, investing and financing activities:

(\$000s)	Year ended December 31		\$Δ
	2021	2020	
Cash from operating activities	14,881	13,786	1,095
Cash used in investing activities	(2,322)	(573)	(1,749)
Cash used in financing activities	(9,048)	(11,749)	2,701
Increase in cash and cash equivalents	3,511	1,464	2,047
Cash and cash equivalents, beginning of year	3,744	2,280	1,464
Cash and cash equivalents, end of year	7,255	3,744	3,511

Operating activities

Cash from operating activities increased due to higher NOI (on account of the Early Termination event). Our tenant incentives and direct leasing cost investments were \$6.13 million in the year (2020 - \$5.57 million) as we completed 316,645 sf of new and renewed leasing, resulting in year-end occupancy of 87.1%. The timing of lease expiries impacts the level of spending on tenant incentives and direct leasing

costs and will fluctuate from period to period. Cash flows before adjustments for working capital and payment of tenant incentives and direct leasing costs was up \$2.11 million over 2020.

Investing activities

We invested \$2.32 million in our 2021 capital program (2020 - \$1.47 million). We remain committed to strategic value-adding asset enhancement and preservation projects as a integral component of our strategy to improve our assets and retain and attract tenants. We resumed our capital investment program in 2021 after pausing any non-essential spend in 2020. Asset enhancement investments fluctuate based on the nature and timing of projects undertaken.

Financing activities

We repaid \$10.00 million on our revolving credit facility in 2021 from proceeds on mortgage re-financings (2020 - repayment of \$13.03 million). During 2021 we re-financed eight secured debts for gross proceeds of \$74.29 million (net \$20.02 million). In 2020 secured debt financings provided gross proceeds of \$32.89 million (net \$17.69 million).

On April 1, 2021 we renewed our NCIB program, which expires on March 31, 2022. During 2021, we repurchased 85,683 units at a cost of \$0.53 million.

During the year, our monthly distribution was increased to \$0.04 per unit for the months of August to December 2021. This is a 14% increase from the previous (July) monthly distribution of \$0.035 per unit and a 33% increase from the December 2020 distribution of \$0.03 per unit. On January 15, 2022, February 15, 2022, March 3, 2022, the REIT announced monthly distributions of \$0.04 per unit, unchanged from previous months.

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 capital requirements accordingly.

As at December 31, 2021, we had \$7.26 million in cash and cash equivalents and \$35.00 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, the total indebtedness of the REIT would be more than 60% (65% including any convertible debentures) of Gross Book Value (GBV). Throughout the year, we were in compliance with the Degree of Leverage Ratio and had a ratio of 49% as at December 31, 2021 (58% including the convertible debenture) (2020 - 50% and 59% respectively).

As at December 31, 2021, the REIT's total capitalization was \$735.00 million (2020 - \$738.71 million), comprised as follows:

(\$000s)	Dec 31, 2021	Dec 31, 2020
Revolving credit facility ⁽¹⁾	–	10,000
Mortgages payable ⁽¹⁾	337,634	314,578
Class C LP Units	40,160	56,080
Indebtedness, excluding convertible debentures	377,794	380,658
Convertible debentures ⁽²⁾	68,975	69,000
Indebtedness	446,769	449,658
Class B LP Units at Historical Cost ⁽³⁾	160,207	160,207
Trust Units, excluding transaction costs	128,027	128,848
Equity at Historical Cost	288,234	289,055
Total capitalization	735,003	738,713
Gross Book Value ("GBV")⁽⁴⁾	766,457	766,457
Debt to GBV, excluding convertible debentures (maximum threshold - 60%) ⁽⁵⁾	49 %	50 %
Debt to GBV (maximum threshold - 65%) ⁽⁵⁾	58 %	59 %

(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 feature.

(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 on page 36 for further information.

We are also subject to financial covenants on our \$35.00 million revolving credit facility. The covenants include a maximum debt to gross book value 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 December 31, 2021 we were in compliance with our financial covenants. We also have financial covenants on certain mortgages for investment properties. At December 31, 2021 we are in compliance with all of our 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:

(\$000s)	as at December 31						
	Total	2022	2023	2024	2025	2026	Thereafter
Revolving credit facility	–	–	–	–	–	–	–
Mortgages payable	337,634	36,996	46,039	46,942	28,204	53,457	125,996
Class C LP Units	40,160	14,084	14,939	458	474	10,205	–
Convertible debentures	68,975	–	22,975	–	46,000	–	–
Total	446,769	51,080	83,953	47,400	74,678	63,662	125,996
% of portfolio	100 %	11 %	19 %	11 %	17 %	14 %	28 %

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.

On June 1, 2021 we entered into the third amendment to our revolving credit facility agreement with two western Canadian financial institutions. Under the terms of the amending agreement the REIT maintains an available credit limit based upon the carrying value of specific investment properties to a maximum of \$35.00 million for general corporate purposes and acquisitions, including a \$5.00 million swingline sub-facility. 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. Unamortized transaction fees of \$0.11 million are included in other assets.

During the year we re-financed eight secured debts providing gross proceeds of \$74.29 million at a rate of 2.77%, retiring \$41.05 million maturing mortgages and \$13.22 million Class C LP Unit debt. Over the next twelve months, four mortgages are up for renewal with a maturing principal balance of \$26.58 million with a weighted average interest rate of 3.43%. We also have one property encumbered by Class C LP Units where the underlying mortgages - held by Melcor - are up for renewal in the next 12 months. The Class C LP Units have a maturing principal balance of \$12.42 million and an interest rate of 1.75%. The financing environment, including commercial lending, has been significantly impacted by the effects of COVID-19 and various government measures undertaken. While conditions have improved since the height of the pandemic, lenders remain cautious, and conditions remain uncertain as to the near and long-term impacts of the pandemic on real estate fundamentals. We expect to be able to re-finance remaining debts at market competitive terms.

The REIT continues to monitor its secured debts in order to identify opportunities and risks, and proactively engages with lenders in regards to upcoming maturities. We expect to be able to re-finance these debts at market competitive terms.

Debt Analysis – our mortgages payable, Class C LP Units and convertible debentures bear interest at fixed rates (including one variable rate mortgage 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	Weighted average interest rate	Weighted average term to maturity
Revolving credit facility	–	–	–	3.70 %	2.42
Mortgages payable	337,634	303,711	33,923	3.35 %	5.10
Class C LP Units	40,160	40,160	–	3.30 %	2.05
Convertible debentures	68,975	68,975	–	5.15 %	2.34
Total	446,769	412,846	33,923	3.62 %	4.40

The weighted average interest rate on our debts was 3.62% (December 31, 2020 - 3.68%).

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. In 2020 we deferred scheduled principal payments, resulting in an anomalous increase in our debt service coverage ratio. Excluding these deferrals (\$2.84 million), our debt service coverage ratio in Q4-2020 would have been 1.97. We consider these measures to be useful in

evaluating our ability to service our debt. Refer to the Non-GAAP Measures section starting on page 36 of this MD&A for more information. These metrics are not calculated for purposes of covenant compliance on any of our debt facilities.

<i>For the years ended December 31 (\$000s)</i>	2021	2020
FFO	26,681	25,250
Principal repayments on Mortgages payable	10,191	7,077
Principal repayments on Class C LP Units	2,744	2,909
Debt service coverage ratio⁽¹⁾	2.06	2.53
FFO plus finance costs	45,049	44,140
Finance costs ⁽²⁾	18,368	18,890
Finance costs coverage ratio⁽¹⁾	2.45	2.34

(1) Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 36 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 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 new NCIB to buy back our trust units. We are entitled to purchase up to 652,525 trust units for cancellation, representing approximately 5% of the REIT's issued and outstanding trust units. The trust units may be repurchased up to a maximum daily limit of 3,824. The price which the REIT will pay for trust units repurchased under the plan will be the market price at the time of acquisition. The NCIB ends one year from commencement, on March 31, 2022. To date, we have purchased 44,616 trust units under this NCIB program for \$0.29 million.

The following table summarizes the trust units issued and the fully diluted number of units outstanding:

	December 31, 2021		December 31, 2020	
	Units	\$ Amount	Units	\$ Amount
<i>Issued and fully paid units (\$000s)</i>				
Balance, beginning of year ⁽¹⁾	13,050	128,848	13,133	129,666
Issuance of trust units	2	25	–	–
Repurchase of trust units	(86)	(846)	(83)	(818)
Balance, end of year ⁽¹⁾	12,966	128,027	13,050	128,848
Dilutive securities				
Class B LP Units Historical Cost ⁽²⁾	16,125	160,207	16,125	160,207
Convertible debentures ⁽³⁾	7,176	68,975	7,169	69,000
Diluted balance, end of year	36,266	357,209	36,344	358,055

(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.

Off Balance Sheet Arrangements

As at December 31, 2021, we had no off-balance-sheet arrangements outside of the following commitments and contingencies.

In the normal course of operations we enter into lease agreements with tenants which specify tenant incentive payments upon completion of the related tenant improvements. The REIT has entered into lease agreements that may require tenant incentive payments of approximately \$2.30 million (2020 - \$2.93 million).

The REIT also retains a loan guarantee related to the mortgage transferred as part of the January 31, 2018 property sale. As at December 31, 2021 the loan balance was \$3.28 million (2020 - \$3.38 million).

Quarterly Results

	2021				2020			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue (\$000s)	18,542	18,089	17,977	19,486	18,742	18,441	18,097	19,292
Net income (loss) (\$000s) ⁽¹⁾	5,301	7,470	(4,619)	(24,439)	(15,714)	(1,645)	(60,790)	83,912
Net operating income (NOI) ⁽⁴⁾	11,640	11,915	11,852	12,627	12,186	10,567	11,739	11,964
Funds from operations (FFO) (\$000s) ⁽⁴⁾	6,371	6,639	6,570	7,101	6,590	5,417	6,513	6,730
Adjusted funds from operations (AFFO) (\$000s) ⁽²⁾⁽⁴⁾	4,608	4,982	4,811	5,604	5,144	3,485	4,636	4,862
Adjusted cash flows from operations (ACFO) (\$000s) ⁽⁴⁾	7,675	5,131	4,956	5,749	5,283	3,593	4,740	4,965
Per unit metrics								
Earnings (loss) per unit (basic)	\$ 0.98	\$ 0.58	\$ (0.36)	\$ (1.87)	\$ (1.20)	\$ (0.13)	\$ (4.64)	\$ 6.39
FFO (basic) ⁽⁵⁾	\$ 0.22	\$ 0.23	\$ 0.23	\$ 0.24	\$ 0.23	\$ 0.19	\$ 0.22	\$ 0.23
AFFO (basic) ⁽²⁾⁽⁵⁾	\$ 0.16	\$ 0.17	\$ 0.17	\$ 0.19	\$ 0.18	\$ 0.12	\$ 0.16	\$ 0.17
ACFO (basic) ⁽⁵⁾	\$ 0.26	\$ 0.18	\$ 0.17	\$ 0.20	\$ 0.18	\$ 0.12	\$ 0.16	\$ 0.17
Annualized distribution rate ⁽³⁾	\$0.480	\$0.480	\$0.420	\$0.420	\$0.360	\$0.360	\$0.360	\$0.360
FFO Payout Ratio ⁽⁵⁾	55%	50%	47%	43%	40%	48%	40%	73%
AFFO Payout Ratio ⁽⁵⁾	76%	67%	64%	55%	51%	75%	57%	102%
ACFO Payout Ratio ⁽⁵⁾	46%	65%	62%	53%	50%	73%	55%	105%
Period-end closing unit price	\$6.79	\$6.85	\$6.90	\$6.49	\$4.83	\$3.83	\$3.70	\$2.89
Annualized distribution yield on closing unit price (%) ⁽³⁾	7.07 %	7.01 %	6.09 %	6.47 %	7.45 %	9.40 %	9.73 %	12.46 %

(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) The REIT increased its August distribution by 14% to \$0.04, which remained consistent through the end of the year. This was the second increase to distributions of the year, following the 17% increase in January. In response to the pandemic, the REIT cut its distribution to \$0.03 per unit for April 2020 from \$0.05625 per unit since IPO in May 2013.

(4) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 36 for further information.

(5) Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 36 for further information.

Fourth Quarter Results

Consolidated Revenue & Net Operating Income

(\$000s)	Three months ended December 31		
	2021	2020	Δ%
Base rent	12,087	12,079	– %
Recoveries	6,820	7,093	(4)%
Other	742	632	17 %
Amortization of tenant incentives	(1,251)	(891)	40 %
Straight-line rent adjustment	144	(171)	(184)%
Rental revenue	18,542	18,742	(1)%
Operating expenses	4,290	3,736	15 %
Utilities and property taxes	3,719	3,882	(4)%
Direct operating expenses	8,009	7,618	5 %
Net rental income	10,533	11,124	(5)%
NOI⁽¹⁾	11,640	12,186	(4)%
Same-asset NOI⁽¹⁾	11,640	12,186	(4)%
Operating margin⁽²⁾	57 %	59 %	(3)%

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 36 for further information.

(2) Supplementary financial measure. Refer to the Non-GAAP and Non-Standard measures section on page 36 for further information.

Fourth quarter rental revenue was stable over Q4-2020. Direct operating expenses were up 5% over Q4-2020. Fourth quarter operating expenses in the comparative period were atypically low due to recovery of previously provided bad debts expense. NOI and same-asset NOI include identical properties in Q4-2021 as no transactions have been completed within the trailing 12 months. NOI and same-asset NOI was down 4% over Q4-2020 due to increased amortization of tenant incentives and higher non-recoverable expenses over the comparative period.

General & Administrative Expense

(\$000s)	Three months ended December 31		
	2021	2020	Δ%
Asset management fee	479	479	– %
Professional fees	98	141	(30)%
Public company costs	74	49	51 %
Other	87	95	(8)%
	738	764	(3)%

Asset management fees were stable over Q4-2020. Professional fees and other expenses fluctuate from period to period due to the timing of costs incurred. Public company costs were up as in the comparative period there was a reduction in trustee remuneration as one of the cash conservation strategies enacted in the second quarter of 2020.

Finance Costs

(\$000s)	Three months ended December 31		
	2021	2020	△%
Interest on mortgages payable and revolving credit facility	2,942	2,832	4 %
Interest on Class C LP Units	309	565	(45)%
Amortization of fair value adjustment on Class C LP Units	—	(2)	(100)%
Interest on convertible debentures	888	888	—%
Accretion on convertible debentures	149	141	6%
Fair value adjustment on derivative instruments	(935)	920	(202)%
Amortization of deferred financing fees	397	249	59 %
Finance costs before distributions	3,750	5,593	(33%)
Distributions on Class B LP Units	1,935	1,451	33 %
Finance costs	5,685	7,044	(19)%

Finance costs for the fourth quarter were down \$1.36 million or 19% over Q4-2020 as a result of fluctuations in fair value adjustment on derivative instruments. Excluding the impact of fair value adjustments on derivative instruments, finance costs increased \$0.50 million or 8% as a result of increased interest on mortgage payable and revolving credit facility, and increased amortization on deferred financing fees.

Funds from Operations & Adjusted Funds from Operations

(\$000s, except per unit amounts)	Three months ended December 31		
	2021	2020	△%
Net (loss)/income for the period	5,301	(15,714)	
Add / (deduct)			
Fair value adjustment on investment properties	(214)	2,917	
Fair value adjustment on Class B LP Units	(967)	16,125	
Amortization of tenant incentives	1,251	891	
Distributions on Class B LP Units	1,935	1,451	
Fair value adjustment on derivative instruments	(935)	920	
Funds From Operations (FFO)⁽¹⁾	6,371	6,590	(3)%
Deduct			
Straight-line rent adjustments	(144)	171	
Normalized capital expenditures	(590)	(585)	
Normalized tenant incentives and leasing commissions	(1,029)	(1,032)	
Adjusted Funds from Operations (AFFO)⁽¹⁾	4,608	5,144	(10)%
FFO/Unit⁽²⁾	\$0.22	\$0.23	
AFFO/Unit⁽²⁾	\$0.16	\$0.18	
Weighted average number of units (000s) ⁽³⁾	29,114	29,176	— %

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 36 for further information.

(2) Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 36 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 and AFFO were down 3% and 10% over Q4-2020 due to fluctuations in fair value adjustments on investment properties, on Class B LP units, and on derivative instruments.

Fourth quarter distributions to unitholders were \$1.21 million (2020 - \$1.17 million).

A reconciliation of cash flows from operations to ACFO is as follows. We intend to focus more of our discussion and performance analysis on ACFO going forward:

(\$000s)	Three months ended December 31		
	2021	2020	△%
Cash flows from operations	3,927	2,832	39 %
Distributions on Class B LP Units	1,935	1,451	
Actual payment of tenant incentives and direct leasing costs	2,270	1,706	
Changes in operating assets and liabilities	1,607	1,160	
Amortization of deferred financing fees	(445)	(249)	
Normalized capital expenditures	(590)	(585)	
Normalized tenant incentives and leasing commissions	(1,029)	(1,032)	
Adjusted Cash Flows from Operations (ACFO)⁽¹⁾	7,675	5,283	45 %
ACFO/Unit⁽²⁾	\$0.26	\$0.18	
Weighted average number of units (000s) ⁽³⁾	29,114	29,176	

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 36 for further information.

(2) Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 36 for further information.

(3) The diluted weighted average number of units includes Trust Units, Class B LP Units and convertible debentures.

Outlook

We own a high quality portfolio of income-producing assets. Alberta, our main market, has undergone dramatic changes throughout the past few years due to lower oil prices and an overall decline in economic activity. In addition, our portfolio continues to face competitive pressure due to the significant new supply of office property in downtown Edmonton. This competitive pressure continues to result in increased costs associated with renewals and securing new leases. While leasing in this environment remains challenging, we continue to execute our strategic leasing program and have seen interest across our portfolio.

Occupancy at year end was 87.1% compared to 87.6% at the end of the 2020. Our tenants include a diversified mix of national, regional and local businesses operating in a variety of industries. This diversified tenant base helps mitigate our exposure to negative trends occurring in any one sector.

With 9.6% of total GLA expiring in 2022, we continue to work towards securing early renewals, particularly on larger tenants. There can be no assurance that this strategy will be successful or that we will continue to meet our retention rate target.

The following table summarizes maturing mortgage balances, Class C LP Units, and the revolving credit facility and their respective weighted average interest rates relative to the fair value of encumbered assets:

(\$000s, except as indicated)	Revolving credit facility	Mortgages payable	Class C LP Units	Total	FV of Collateral	Leverage (%)	Weighted Average Interest Rate
2022	–	26,578	12,419	38,997	117,592	33 %	2.89 %
2023	–	36,408	14,265	50,673	83,491	61 %	3.90 %
2024	–	38,254	–	38,254	75,716	51 %	3.67 %
2025	–	21,059	–	21,059	52,582	40 %	3.26 %
2026	–	47,454	9,715	57,169	122,344	47 %	2.99 %
Thereafter	–	109,675	–	109,675	244,134	45 %	3.32 %
Total	–	279,428	36,399	315,827	695,859		

The REIT currently has three unencumbered assets with a fair value of \$27.79 million.

Over the next twelve months, four mortgages are up for renewal with a maturing principal balance of \$26.58 million with a weighted average interest rate of 3.43%. We also have one property encumbered by Class C LP Units where the underlying mortgages - held by Melcor - are up for renewal in the next 12 months. The Class C LP Units have a maturing principal balance of \$12.42 million and an interest rate of 1.75%. The financing environment, including commercial lending, has been significantly impacted by the effects of COVID-19 and various government measures undertaken. While conditions have improved since the height of the pandemic, lenders remain cautious, and conditions remain

uncertain as to the near and long-term impacts of the pandemic on real estate fundamentals. We expect to be able to re-finance remaining debts at market competitive terms.

We continually monitor our upcoming mortgage renewals to identify opportunities and risks.

We continue to seek out and complete suitable acquisitions to expand our asset base as conditions allow. We also continue to improve existing assets through asset enhancement programs and efficient and effective property management. Our disciplined approach helps to ensure that our assets remain profitable over the long-term while at the same time achieving our objective of providing stable monthly cash distributions to unitholders. We also remain committed to our signature care program to ensure we are the landlord of choice for our tenants.

With a strong, diversified portfolio, focus on property management and client relationships, and a solid pipeline of over 4.63 million sf of high quality assets being developed over the next 5-10 years, we remain well positioned for the future.

Business Environment & Risks

We are exposed to various risks and uncertainties, many of which are beyond our control. The following risk factors could materially impact our financial condition, results of operations, cash flows, properties, and the value of our trust units and physical assets. We take steps to mitigate these risks; however, there is no assurance that the steps taken will avoid future loss.

General Risks

We are subject to market conditions in the geographic areas where we own and manage properties. Where strong market conditions prevail, we are able to achieve higher occupancy rates. Market conditions are influenced by outside factors such as general inflation and interest rate fluctuations; population growth and migration; financing and economic environments; job creation and employment patterns; consumer confidence; government policies, regulations and taxation; and availability of credit and financing.

Real Estate Risk

Real estate investments are subject to varying levels of risk. These risks include changes to general economic conditions, government and environmental regulations, local supply/demand, and competition from other real estate companies. Real estate assets are relatively illiquid in down markets. As a result, the REIT may not be able to rebalance its portfolio in response to changing economic or investment conditions.

Other real property risks include:

- The value of the property and any improvements made to it;
- Rollover of leases and the ability to rent unleased suites;
- Financial stability of tenants and their ability to pay rent and fulfill their lease obligations; and
- Geographic concentration.

Cash available for distribution will be adversely affected if a significant number of tenants are unable to meet their obligations under their leases or if a significant amount of space in our properties becomes vacant and cannot be leased on economically favourable lease terms.

General declines in real estate markets, including changes in demand for real estate resulting from COVID-19 and related economic conditions, will impact fair values reported or the cash flows associated with owning or disposing of such properties. Market assumptions applied for valuation purposes do not necessarily reflect the REIT's specific history or experience, and the conditions for realizing the fair values through a sale may change or may not be realized. Consequently, there is a risk that the actual fair values may differ, and the differences may be material. In addition, there is an inherent risk related to the reliance on and use of a single appraiser as this approach may not adequately capture the range of fair values that market participants would assign to the real estate properties. Certain ratios and covenants could be negatively affected by downturns in the real estate market and could have significant impact on the REIT's operating revenues and cash flows, as well as the fair values of the real estate properties.

Retail Shift from Bricks & Mortar Stores

Shifting consumer preferences toward e-commerce may result in a decrease in the demand for physical space by retail tenants. Retailers reducing the physical space leased from the REIT could adversely affect our financial performance. To mitigate this risk, our neighbourhood shopping centres are concentrated on services such as grocer, gas, pharmacy, banks, etc. that face less pressure from online alternatives.

Concentration of Properties and Tenants

Of our total GLA, 89% is located in Alberta at December 31, 2021. Consequently, the market value of the REIT's properties, the income generated by the REIT and the REIT's performance are particularly sensitive to changes in Alberta's real estate markets and general economic conditions. The factors impacting the real estate markets in Alberta and the Alberta economy in general may differ from those affecting other regions of Canada.

Adverse changes in economic conditions in Alberta may have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and on our ability to make distributions to unitholders. The Alberta economy is sensitive to the price of oil and gas. To mitigate against this risk, the REIT endeavors to achieve a diverse mix of tenants representing a variety of industries, as well as a mix of regional, local and national tenants.

Competitive Conditions

The real estate market is highly competitive, with a large number of well-financed companies operating in the same markets as the REIT. We may compete for real property acquisitions with individuals, corporations, institutions and other entities, which may increase the purchase price and reduce the yield of an acquired property. The REIT's rights under the Development and Opportunities Agreement entered into with Melcor helps to mitigate competitive risk.

We also compete with other developers, managers and property owners in attracting tenants. Some of our competitors are better capitalized or financially stronger, and would be in a better position to withstand an economic downturn. The existence of competition for tenants could have an adverse effect on our ability to lease space in our properties and on the rents charged or concessions granted, and could materially and adversely affect our cash flows, operating results and financial condition.

The REIT focuses on providing exceptional customer care and building solid relationships with our clients to increase the likelihood that they will renew leases.

Fixed Costs

The failure to lease vacant space on a timely basis or at all would likely have an adverse effect on the REIT's financial condition and results of operation and decrease the amount of cash available for distributions. Certain significant expenditures, including property taxes, ground rent, maintenance costs, mortgage payments (including those associated with the Retained Debt), insurance costs and related charges must be made throughout the period of ownership of real property regardless of whether a property is producing any income. If the REIT is unable to meet mortgage payments on any property (including those associated with the Retained Debt), losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or sale or the landlord's exercise of remedies. Costs may also be incurred in making improvements or repairs to properties required by a new tenant.

The timing and amount of capital expenditures by the REIT will indirectly affect the amount of cash available for distribution to unitholders. Distributions may be reduced, or even eliminated, at times when the REIT deems it necessary to make significant capital or other expenditures.

Financing

We require access to capital to maintain our properties and fund our growth strategy. There is no assurance that capital will be available when needed or on favourable terms. Our access to third-party financing is subject to a number of factors, including general market conditions; the market's perception of our growth potential; our current and expected future earnings; our cash flows and cash distributions, and cash interest payments; and the market price of our units.

We use debt and other forms of leverage in the ordinary course of business to execute on our strategy.

We are subject to general risks associated with debt financing. The following risks may adversely affect our financial condition and results of operations:

- Cash flows may be insufficient to meet required payments of principal and interest;
- Payments of principal and interest on borrowings may leave us with insufficient cash resources to pay operating expenses;
- We may not be able to refinance indebtedness on our assets at maturity due to company and market factors;
- The fair market value of our assets;
- Liquidity in the debt markets;
- A high level of debt will reduce the amount of funds available for the payment of distributions to unitholders and interest payments on our debentures
- Financial, competitive, business and other factors, including factors beyond our control;
- Refinancing terms that are not as favourable as the original terms of the related financing.

We attempt to mitigate these risks through the use of long-term debt and diversifying terms and maturity dates.

The terms of various credit agreements and other financing documents require that we comply with a number of financial and other covenants, such as maintaining debt service coverage and leverage ratios, and minimum insurance coverage. These covenants may limit our flexibility in our operations, and breaches of these covenants could result in defaults under the instruments governing the indebtedness, even if we had satisfied our payment obligations.

If we are unable to refinance assets/indebtedness on acceptable terms, or at all, we may need to use available liquidity, which would reduce our ability to pursue new investment opportunities. Alternately we may be required to dispose of one or more of our assets on disadvantageous terms. In addition, unfavourable interest rates or other factors at the time of refinancing could increase interest expense.

A large proportion of our capital is invested in physical, long-lived assets, which can be difficult to liquidate, especially if local market conditions are poor. This circumstance could limit our ability to diversify our portfolio of assets promptly in response to changing economic or investment conditions.

The liabilities of the REIT have fixed and floating interest rate components resulting in exposure to interest rate fluctuations. These fluctuations in interest rates may impact the earnings of the REIT. The REIT's financial and operating results could be materially adversely affected by higher interest rates.

The REIT may implement hedging programs in order to offset the risk of revenue losses and to provide more certainty regarding the payment of distributions to unitholders should current variable interest rates increase. However, to the extent that the REIT fails to adequately manage these risks, its financial results, and its ability to pay distributions to unitholders and interest payments on debt and future financings may be adversely affected. Increases in interest rates generally cause a decrease in demand for properties. Higher interest rates and more stringent borrowing requirements, whether mandated by law or required by banks, could have a material adverse effect on the REIT's ability to sell any of its properties.

We may enter into financing commitments in the normal course of business and, as a result, may be required to fund these, particularly through joint arrangements. If we are unable to fulfill any of these commitments, damages could be pursued against the REIT.

Lease Maturity Risk

We are subject to lease maturity risk as there is no assurance that we will be able to renew or replace expiring leases at similar terms. We manage our lease maturity risk by pro-actively engaging tenants whose leases are expiring for early identification of potential vacancy risk. In addition, where possible we ladder maturity dates to minimize exposure in any particular period and to maintain a diversified portfolio.

The following table illustrates the number of leases maturing over the next five years and beyond.

Year of Maturity	Number of Leases	Renewal GLA (sf)	% of GLA	Average Base Rent Expiring Per Annum
2022	80	308,989	9.6 %	\$13.44
2023	95	586,468	18.2 %	\$13.70
2024	94	362,892	11.3 %	\$16.17
2025	98	441,758	13.7 %	\$18.08
2026	84	328,920	10.2 %	\$19.25
Thereafter	165	771,204	24.0 %	\$18.90
Vacant Space	–	415,944	12.9 %	–
	616	3,216,175		

The following table illustrates the 2022 maturities by portfolio type and geographic area:

Property Type	Northern Alberta	Southern Alberta	Saskatchewan & British Columbia	Total
Retail	72,016	1,924	11,240	85,180
Office	113,041	57,773	26,995	197,809
Industrial	–	26,000	–	26,000
	185,057	85,697	38,235	308,989

2022 lease maturities includes 44,427 sf of leases on month-to-month.

Credit Risk

We are subject to credit risk as our tenants may not be able to fulfill their financial obligations on current balances and contracted future rents. 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.

The following table illustrates the ten largest tenants for the portfolio, as measured by their percentage contribution to the total contracted future minimum lease payment for 2022 and corresponding areas leased by each tenant:

Rank	Top Ten Tenants (Parent Name)	% of Total Minimum Rent	Lease GLA (sf)	% of Total Owned GLA	Remaining Term (yrs)	No. of Locations in Properties	Credit Rating (S&P/Moody's/DBRS)
1	Government of Alberta	4.0 %	117,925	3.5 %	2	6	A+ /Aa3/AA(low)
2	Alberta Health Services	3.4 %	88,997	2.7 %	4	2	---
3	Staples Canada ULC	3.2 %	96,891	2.9 %	10	3	---
4	Shoppers Drug Mart (Loblaws)	2.9 %	44,228	1.3 %	5	3	BBB-/BBB(high)
5	NDT Global	2.6 %	44,328	1.3 %	4	1	---
6	BasinTek LLC	2.6 %	88,699	2.7 %	2	1	---
7	Fountain Tire Ltd.	2.0 %	30,514	0.9 %	7	1	---
8	Canadian Brewhouse	1.7 %	24,348	0.7 %	8	4	---
9	RONA (Lowe's)	1.7 %	92,207	2.8 %	5	2	BBB+/Baa1/BBB(high)
10	Royal Bank of Canada	1.7 %	18,067	0.5 %	3	4	AA-/Aa2/AA(high)

Pandemics, Natural Disasters or Other Unanticipated Events

The occurrence of pandemics, natural disasters, or other unanticipated events, in any of the areas where we or our partners and suppliers operate could disrupt operations. In addition, pandemics, natural disasters or other unanticipated events could have a material adverse effect on our business, financial condition, results of operations and cash flows. The ongoing COVID-19 pandemic has resulted in government restrictive measures being placed when needed to help contain the spread of the virus. With the rollout of vaccinations, restrictions currently are easing globally, but future outbreaks of viruses or other contagions, epidemic or pandemic diseases including subsequent outbreaks of COVID-19 may lead to prolonged voluntary or mandatory building and/or business closures, restrictions on travel and gatherings, quarantines, self-isolation and physical distancing. The impact of these measures may cause a general shutdown of economic activity and disrupt workforce and business operations in the regions where we operate. An occurrence such as this, including the COVID-19 pandemic, could have material adverse effects and increased risk, including but not limited to:

- negative impact on pricing and availability of Canadian debt and equity capital markets
- material reduction in rental revenue and related collections due to financial hardship and government ordered closures of certain business
- reduced demand for commercial real estate leading to a material increase in vacancy and decline in revenue
- trading price of the REIT's securities
- negative impact to real estate valuations from declining revenue and lack of market activity
- ability to access capital markets at a reasonable cost
- uncertainty regarding delivering services due to illness, REIT or government imposed isolation programs, restrictions on the movement of personnel, closures and supply chain disruptions
- impact of additional legislation, regulation, fiscal and monetary policies and other government interventions

This is not an exhaustive list of all risk factors. To mitigate these risks, we have a comprehensive health and safety program and have expanded it to include pandemics. We have introduced new policies and practices both internally and at the properties that we manage to reduce the spread of COVID-19.

We continually monitor the situation and will take additional measures if necessary. We will continue to transparently communicate our response plans with our staff, tenants and stakeholders.

Significant Ownership by Melcor

Melcor holds a 55.4% effective interest in the REIT, where each Class B LP Unit is attached to a Special Voting Unit of the REIT. Melcor also holds all of the Class C LP Units of the Partnership.

The Class C LP Units entitle Melcor to priority distributions over holders of Class A LP and Class B LP Units in an amount that is expected to be sufficient (without any additional amounts) to permit Melcor to satisfy amounts payable under the Retained Debt.

In addition, the DOT grants Melcor the right to nominate Trustees to the REIT board. For so long as Melcor maintains a significant effective interest in the REIT, Melcor will have the ability to exercise certain influence with respect to the affairs of the REIT and may significantly affect the outcome of unitholder votes, and may have the ability to prevent certain fundamental transactions. As a result, Melcor has the ability to influence many matters affecting the REIT.

Accordingly, the units may be less liquid and trade at a relative discount compared to such units in circumstances where Melcor did not have the ability to influence or determine matters affecting the REIT. Additionally, Melcor's significant effective interest in the REIT may discourage transactions involving a change of control of the REIT, including transactions in which an investor, as a holder of the units, might otherwise receive a premium for its units over the then-current market price.

Pursuant to the Exchange Agreement, each Class B LP Unit is exchangeable at the option of the holder for one unit of the REIT (subject to customary anti-dilution adjustments). If Melcor exchanges some or all of its Class B LP Units for units and subsequently sells such units in the public market, the market price of the units may decrease. Moreover, the perception in the public market that these sales will occur could also produce such an effect.

Dependence on Melcor

The REIT is dependent on Melcor for management, administrative and operating services relating to the REIT's business. The Asset Management Agreement has a term of 5 years, with automatic 5 year renewals, and may at times in the future not reflect current market terms for duties and responsibilities of Melcor. There is a risk that, because of the term and termination provisions of the Asset Management Agreement, termination of the Asset Management Agreement may be uneconomical for the REIT and accordingly not in the best interest of the REIT.

Should Melcor terminate the Asset Management Agreement or the Property Management Agreement, the REIT may be required to engage the services of an external asset manager and/or property manager. The REIT may be unable to engage an asset manager and/or property manager on acceptable terms, in which case the REIT's operations and cash available for distribution may be materially adversely affected. Alternatively, it may be able to engage an asset manager and/or property manager on acceptable terms or it may elect to internalize its external management structure, but the process undertaken to engage such managers or to internalize management could be costly and time-consuming and may divert the attention of management and key personnel away from the REIT's business operations, which could materially adversely affect its financial condition.

Additionally, the Development and Opportunities Agreement provides that, subject to certain exceptions, the REIT will not engage a party other than Melcor or its affiliates to perform any of the services to be performed by Melcor pursuant to the Asset Management Agreement.

While the Trustees have oversight responsibility with respect to the services provided by Melcor pursuant to the Asset Management Agreement and the Property Management Agreement, the services provided by Melcor under such agreements will not be performed by employees of the REIT or the Partnership, but by Melcor directly, and through entities to which it may subcontract its duties. Further, the foregoing arrangements are subject to limited termination rights in favor of the REIT. As a result, Melcor directly, and indirectly through entities to which it may subcontract, has the ability to influence many matters affecting the REIT and the performance of its properties now and in the foreseeable future.

While the Melcor name and trade-mark and related marks and designs will be licensed to the REIT by Melcor under a non-exclusive, royalty-free trademark license agreement, such license will not be on a perpetual basis and may be terminated by Melcor at any time on 30 days' notice following the date of termination of the Asset Management Agreement. Termination of the license would require the REIT to rebrand its business, which could be costly and time-consuming and may divert attention of management and key personnel from the REIT's business operations, which could materially adversely affect its financial condition.

Potential Conflicts of Interest with Melcor

Melcor's continuing businesses may lead to conflicts of interest between Melcor and the REIT. The REIT may not be able to resolve any such conflicts, and, even if it does, the resolution may be less favourable to the REIT than if it were dealing with a party that was not a holder of a significant interest in the REIT. The agreements that the REIT entered into with Melcor at the initial public offering may be amended upon agreement between the parties, subject to applicable law and approval of the independent Trustees. As a result of Melcor's significant holdings in the REIT, the REIT may not have the leverage to negotiate any required amendments to these agreements on terms as favourable to the REIT as those the REIT could secure with a party that was not a significant unitholder.

Taxation Matters

Although we currently meet the requirements of the REIT Exception, there can be no assurance that the REIT will continue to qualify for the REIT Exception to remain tax exempt by the SIFT Rules in future years.

The SIFT Rules may have an adverse impact on the REIT and the unitholders, on the value of the units and on the ability of the REIT to undertake financings and acquisitions and if the SIFT Rules were to apply, the distributable cash of the REIT may be materially reduced. The effect of the SIFT Rules on the market for the units is uncertain.

Environmental Risk & Climate Change

The REIT is subject to various requirements (including federal, provincial and municipal laws) relating to the protection of the environment.

Under these requirements, the REIT could be, or become, liable for environmental or other harm, damage or costs, including with respect to the release of hazardous, toxic or other regulated substances into the environment and/or affecting persons, and the removal or other remediation of hazardous, toxic or other regulated substances that may be present at or under its properties.

Such requirements often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such substances. Additional liability may be incurred by the REIT with respect to the release of such substances from the REIT's properties to properties owned by third parties, including properties adjacent to the REIT's properties or with respect to the exposure of persons to such substances. The failure to remove or otherwise address such substances may materially adversely affect the REIT's ability to sell such property, maximize the value of such property or borrow using such property as collateral security, and could potentially result in claims or other proceedings against the REIT.

It is the REIT's operating policy to obtain, or be entitled to rely on, a Phase I environmental site assessment conducted by an independent and experienced environmental consultant prior to acquiring a property. Where a Phase I environmental site assessment warrants further

investigation, it is the REIT's operating policy to conduct further environmental investigations. Although such environmental assessments provide the REIT with some level of assurance about the condition of the properties, the REIT may become subject to liability for undetected contamination or other environmental conditions of its properties against which it cannot insure, or against which the REIT may elect not to insure where insurance premium costs are considered to be disproportionate to the assessed risk, which could have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to unitholders.

Environmental laws and other requirements can change and the REIT may become subject to more stringent environmental laws or other requirements in the future. Compliance with more stringent environmental laws or requirements, the identification of currently unknown environmental issues or an increase in the costs required to address a currently known condition may have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to unitholders. The REIT will make the necessary capital and operating expenditures to ensure compliance with environmental laws and regulations.

Subject to the obligations of Melcor described above, the REIT will bear the risk of assessment, remediation or removal of such contamination, hazardous substances or other residual pollution. The discovery of any such residual pollution on the sites and/or in the buildings, particularly in connection with the lease or sale of properties or borrowing using the real estate as security, could trigger claims for rent reductions or termination of leases for cause, for damages and other breach of warranty claims against the REIT. The remediation of any contamination and the related additional measures the REIT would have to undertake could have a materially adverse effect and could involve considerable additional costs that the REIT may have to bear. The REIT will also be exposed to the risk that recourse against the polluter or the previous owners or occupants of the properties might not be possible, for example, because they cannot be identified, no longer exist or have become insolvent. Moreover, the existence or even the mere suspicion of the existence of contamination, hazardous materials or other residual pollution can materially adversely affect the value of a property and our ability to lease or sell such a property.

The REIT employs a rigorous due diligence process, including obtaining a Phase I environmental site assessment, prior to acquiring property to mitigate its exposure to these potential issues. The REIT does not believe that costs relating to environmental matters will have a material adverse effect on our business, financial condition or results of operations.

Natural disasters and severe weather such as floods, blizzards and rising temperatures may result in damage to the REIT's properties. The extent of our casualty losses and loss in operating income in connection with such an event depends on the severity of the event and the total amount of exposure in the affected area. We are also exposed to risks associated with inclement winter weather, including increased need for maintenance and repair of its buildings. In addition, climate change, to the extent it causes changes in weather patterns, could have effects on the REIT's business by increasing the cost of property insurance, and/or energy at its properties. Natural disasters, severe weather and climate change may all increase expenses and reduce cash flow.

Our sustainability program supports capital and operating improvements that focus on:

- decreasing energy and water use; reducing waste and emissions
- creating excellence in energy and environmental management that result in green building certifications
- collecting consistent data that tracks and validates its performance towards its objectives
- reporting transparency
- engaging investors, employees and tenants to support its initiatives

Cyber Security Risk

Cyber security has become an increasingly problematic issue for issuers and businesses in Canada and around the world, including for the REIT and the real estate industry in general. Cyber attacks may focus on financial fraud, obtaining sensitive data for inappropriate use or to disrupt business operations. A cyber incident is any adverse event that threatens the confidentiality, integrity or availability of the organization's information resources, including intentional or unintentional events to gain unauthorized access to information systems to disrupt operations, corrupt data or steal confidential information.

As our reliance on technology has increased, so have our risk of a cyber security breach. The REIT's primary risks that could directly result from the occurrence of a cyber incident include operational interruption, damage to our reputation, damage to our business relationships with tenants, disclosure of confidential information regarding our tenants, employees and third parties with whom we do business, and may result in negative consequences, including remediation costs, loss of revenue, additional regulatory scrutiny and litigation.

To remain resilient to these risks, the REIT has implemented processes, procedures and controls to help mitigate these risks, including installing firewalls and antivirus programs on its networks, servers and computers, and staff training. However, these measures, as well as its increased awareness of a risk of a cyber incident, do not provide assurance that its efforts will be effective or that attempted security breaches or disruptions will not be successful or damaging.

Joint Arrangements

Some of our properties are jointly owned. These joint arrangements may involve risks that would not otherwise be present if the third parties were not involved, including the possibility that the partners have different economic or business interests or goals. Also, within these arrangements, the REIT may not have sole control of major decisions relating to these assets, such as: decisions relating to the sale of the assets and businesses; timing and amount of distributions of cash from such entities to the REIT and its joint arrangement partners; and capital expenditures.

Volatile Market Price of the REIT's Securities

Financial markets have experienced significant price and volume fluctuations in recent years. In many cases volatile market movement impacts a wide variety of issuers unrelated to the operating performance, underlying asset values or prospects of such issuers. The market price of the REIT's securities may decline even if the our financial performance, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in losses. As well, certain institutional investors may base their investment decisions on consideration of the REIT's environmental, governance and social practices and performance according to such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited investment or no investment in the REIT's securities by those institutions. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil exist for a protracted period of time, our operations and the trading price of our securities could be adversely affected.

Other Financial Information

Joint Arrangements

We record only our share of the assets, liabilities, revenue and expenses of our joint arrangements. In 2021, we had three joint arrangements (2020 - three). Refer to note 20 to the consolidated financial statements for additional information. The following table illustrates selected financial data related to joint arrangements at 100% as well as the net portion relevant to the REIT:

Joint arrangement activity at JV% (\$000s)	Dec 31, 2021	Dec 31, 2020
Revenue	5,206	5,377
Earnings (loss)	2,531	(769)
Assets	65,279	64,934
Liabilities	33,226	34,094

Joint arrangement activity at 100% (\$000s)	Dec 31, 2021	Dec 31, 2020
Revenue	10,412	10,754
Earnings (loss)	5,062	(1,538)
Assets	130,558	129,868
Liabilities	66,452	68,188

Related Party Transactions

Please refer to note 19 to the consolidated financial statements for information pertaining to transactions with related parties.

Subsequent Events

Please refer to note 26 to the consolidated financial statements for information pertaining to subsequent events.

Critical Accounting Estimates

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with IFRS. In applying IFRS, we make estimates and assumptions that affect the carrying amounts of assets and liabilities, disclosure of contingent liabilities and the reported amount of income for the period. Actual results could differ from estimates previously reported. We have discussed the development, selection and application of our key accounting policies, and the critical accounting estimates and assumptions they involve, with the Audit Committee and the Board of Trustees.

Our significant accounting policies and accounting estimates are contained in the consolidated financial statements. Please refer to note 3 to the consolidated financial statements for a description of our accounting policies and note 4 for a discussion of accounting estimates and judgments.

Changes in Accounting Policies

No new standard interpretations were effective and adopted in 2021, Refer to note 5 to the consolidated financial statements for further discussion on new and amended standards not yet adopted.

Internal Control over Financial Reporting and Disclosure Controls

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant and material information is gathered and reported to senior management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), in a timely manner. Under the supervision of the CEO and CFO, we carried out an evaluation of the effectiveness of our disclosure controls and procedures as defined in Canada by National Instrument 52-109 as of December 31, 2021. Based on this evaluation, our CEO and CFO concluded that the design and operation of our disclosure controls and procedures related to the REIT and its subsidiaries and joint arrangements were effective.

Internal control over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management designed these controls based on the criteria set out in Internal Control - Integrated Framework (COSO 2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The CEO and CFO have certified that the internal controls over financial reporting were properly designed and effective for the year ended December 31, 2021.

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, 2021, 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 Declaration of Trust (DOT) dated May 1, 2013. A copy of the DOT is filed on SEDAR at www.sedar.com and is available on request to all unitholders. At March 3, 2022, 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 improvements 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:

(\$000s)	Three months ended December 31			Year ended December 31		
	2021	2020	Δ%	2021	2020	Δ%
Net income/(loss)	5,301	(15,714)		(16,287)	5,763	
Net finance costs	5,675	7,032		28,361	24,830	
Fair value adjustment on Class B LP Units	(967)	16,125		31,606	(53,052)	
Fair value adjustment on investment properties	(214)	2,917		(2,879)	62,748	
General and administrative expenses	738	764		2,953	3,043	
Amortization of tenant incentives	1,251	891		4,218	3,779	
Straight-line rent adjustment	(144)	171		(208)	(655)	
NOI	11,640	12,186	(4)%	47,764	46,456	3%

Further discussion over NOI can be found under the Consolidated Revenue & Net Operating Income section of the MD&A starting on page 12.

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. As there have been no asset acquisitions or dispositions in 2021 or 2020, same-asset NOI is equal to NOI. Further discussion over same-asset NOI can be found in the Consolidated Revenue & Net Operating Income section of the MD&A starting on page 12.

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 starting on page 16.

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 starting on page 16.

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 starting on page 16.

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 starting on page 16.

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 starting on page 16.

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 starting on page 16.

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 starting on page 16.

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 starting on page 21.

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 starting on page 21.

Debt to Gross Book Value: Debt to Gross Book Value 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 Gross Book Value (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 starting on page 21.

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. A reconciliation of income before fair value adjustment and taxes to the most comparable IFRS measure, net income, is as follows:

(\$000s)	Three months ended December 31			Year ended December 31		
	2021	2020	△%	2021	2020	△%
Net income/(loss)	5,301	(15,714)		(16,287)	5,763	
Fair value adjustment on Class B LP Units	(967)	16,125		31,606	(53,052)	
Fair value adjustment on investment properties	(214)	2,917		(2,879)	62,748	
Fair value adjustment on derivative instruments	1,019	920		2,847	(1,063)	
Income before fair value adjustment and taxes	5,139	4,248	21 %	15,287	14,396	6 %

Fair value of investment properties: Fair value of investment properties in the Property Profile and Regional Analysis sections of the MD&A starting on page 13 is a supplementary financial measure and is calculated as the sum of the balance sheet balances for investment properties and other assets (TI's and SLR).