Management's Discussion & Analysis

March 8, 2023

The following Management's Discussion and Analysis (MD&A) of Melcor Real Estate Investment Trust's (the REIT) results should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 2022. The discussion outlines strategies and provides analysis of our financial performance for the fourth quarter and the full year.

The financial information in this MD&A, including 2021 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 8, 2023. Disclosure contained in this MD&A is current to March 8, 2023, 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-GAAP and Non-Standard Measures section.

Caution Regarding Forward-looking Statements

In order to provide our investors with an understanding of our current results and future prospects, our public communications often include written or verbal forward-looking statements.

Forward-looking statements are disclosures regarding possible events, conditions, or results of operations that are based on assumptions about future economic conditions 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 2023 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 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.

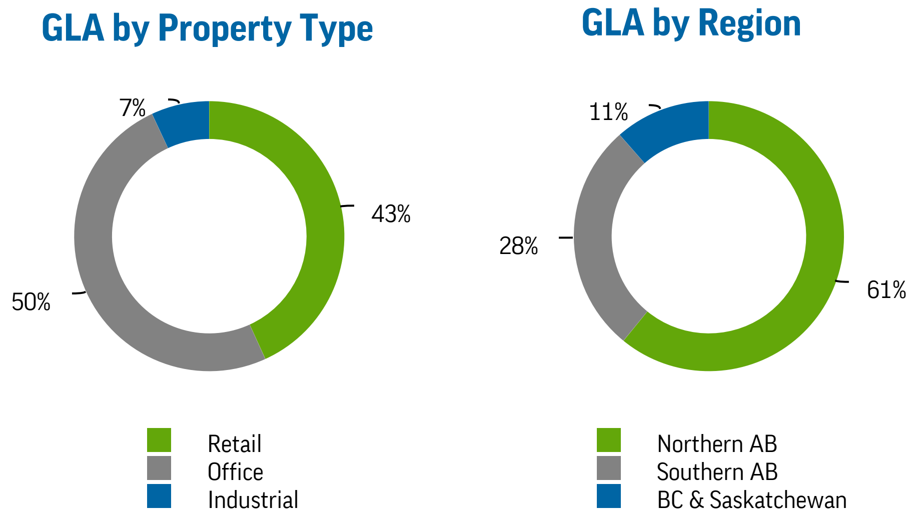
Readers should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Except as may be required by law, we do not undertake to update any forward-looking statement, whether written or oral, made by the REIT or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

TABLE OF CONTENTS

Our Business	1	Investment Properties	17
Corporate Sustainability	5	Liquidity & Capital Resources	19
2022 Highlights & Key Performance Indicators	7	Off Balance Sheet Arrangements	22
Consolidated Revenue & Net Operating Income	10	Quarterly Results	23
Property Profile	11	Fourth Quarter	24
Regional Analysis	13	Outlook	26
General & Administrative Expense	13	Business Environment & Risks	27
Finance Costs	14	Other Financial Information	34
Income Taxes	14	Internal Controls over Financial Reporting and Disclosure Controls	34
Funds from Operations, Adjusted Funds from Operations & Adjusted Cash Flow from Operations	14	Non-GAAP and Non-Standard Measures	35

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 at year-end. Note that subsequent to the year, we sold one office property in Kelowna and hold 38 properties representing 3.14 million sf at March 8, 2023. As at December 31, 2022 our portfolio is comprised and characterized as follows:

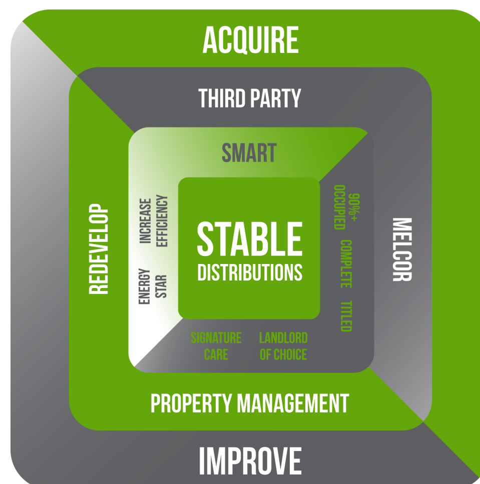


These high-quality properties feature stable occupancy and a strong mix of tenants, some of whom have been in place for over 25 years. The REIT is externally managed, administered and operated by Melcor Developments Ltd. (Melcor) pursuant to the asset management and property management agreements entered 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) 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. Furthermore, Melton Holdings Ltd. owns approximately 50.2% of the outstanding shares of Melcor and pursuant to IAS 24, Related Party Disclosures, is the ultimate controlling shareholder.

Note: Elements of the REIT's growth strategy were interrupted by COVID throughout 2020 and 2021, and by volatile capital markets in 2022. We intend to resume our growth strategy as outlined below as market conditions allow.

Our strategy is to **grow and improve our asset base**, and our objective is to **provide stable monthly cash distributions to unitholders**. Our growth strategy is contingent on favourable capital market conditions, which have proven unfavourable over the past several years. While initially reduced due to market uncertainty in 2020 related to the COVID pandemic, we have subsequently maintained a stable distribution of $0.04 per unit per month since August 2021.



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 interruptions to normal business operations from 2020 to early 2022 and the impact on our unit price, resulting in cautious capital outlay in past years. We have a capital improvement plan in place looking at future spend required on our portfolio of assets which resulted in an update to future reserves (normalized capital expenditures and normalized tenant incentives and leasing commissions) to account for spend required in the coming years.

Our acquisition strategy is focused on:

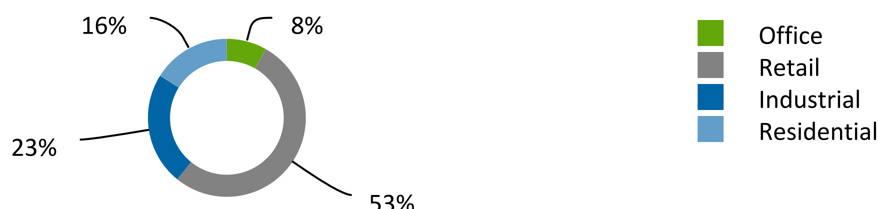
- Increasing penetration in existing geographic markets to exploit competitive advantage,
- Diversifying our property portfolio, and
- Expanding to adjacent geographic markets and asset classes.

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. Over the past 10 years, the REIT has vended in 1.05 million sf for $247.88 million. Based on projects currently under development or planned to begin in the near-term, we expect this acquisition pipeline to yield 4.66 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 1.14 million sf of owned and managed GLA and an additional 0.06 million 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 Gross Leasable Area



- ***Acquiring accretive income-producing properties***: We actively seek strategic third party property acquisitions that fit our SMART investment criteria: properties that are Strategic, 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. Over the past 10 years, we have acquired 0.75 million sf for $141.83 million via third party acquisitions.

  The following table describes components of our SMART acquisition strategy:

SMART ACQUISITION STRATEGY	
Strategic	**Acquisition Targets**
Market	• Stable, accretive properties • Penetrate existing geographic markets • Expand into adjacent markets • Potential for redevelopment and/or repositioning
Accretive	**Acquisition & Integration Strengths**
Right Price	• Proven due diligence process • Agility to quickly execute on decisions • Ability to close within 30 days resulting in preferred access to unmarketed opportunities
Targeted	• Clustering of properties for efficient management and strong market knowledge

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 30 years.

We launched MelCARE, our customer care app in 2021 to enable tenants to submit service requests via their mobile devices. 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 86.1% in 2022.

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	**Inner works** (boilers, roof, maintenance) • Maintain asset value through routine care • Improve efficiencies and sustainability through upgrades to lower building operating costs • Decisions driven by ongoing building and equipment condition assessments
ENHANCE	**Visible** (common area, landscaping, aesthetics) **and comfort enhancing** (HVAC) **improvements** • Upgrades that assist with tenant attraction and retention • Decisions 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 working towards becoming more energy efficient. As we upgrade and replace equipment, we do so with technology that promotes energy efficiency. We also engage specialists to monitor and analyze our energy usage to identify ways it can be improved.

In 2021, Melcor joined the Edmonton Corporate Climate Leaders Program. We completed benchmarking our energy usage at Edmonton-based office buildings in 2022. We continue to understand the new standards being presented and work towards setting appropriate targets for our business.

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. One property was held for sale at December 31, 2022 with the sale closing on February 1, 2023. This property was a 71,600 sf office building with main floor retail on a 2.8 acre site in Kelowna and sold for $19.5 million ($272.24/sf), resulting in net cash proceeds of $9.0 million after mortgage repayment. This asset has been owned by the REIT since 2013 and was an opportunistic sale that enabled the REIT to pay down our line of credit while also achieving a good return on investment for unitholders.

Key Metrics & 2022 Accomplishments

Metric	Target	2022
Debt/gross book value excluding debentures[1]	50-55%	**51 %**
Debt/gross book value including debentures[1]	55-60%	**57 %**
Tenant retention	75 %	**86.1 %**
Occupancy	90%+	**88.1 %**
Portfolio diversification		
Retail	40 %	**43.4 %**
Office	40 %	**50.1 %**
Industrial	20 %	**6.5 %**
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 35 for further information.

Corporate Sustainability

We are committed to corporate sustainability - in environmental practice, social responsibility, governance of the REIT 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 (ESG) oversight was added to the Board's mandate in December 2021.

Here are the steps the REIT is taking to prepare for anticipated ESG reporting requirements:

- we are assessing the material ESG risks and opportunities that apply to the REIT and determining how we will benchmark, measure and report on these topics as requirements are adopted.
- we are broadening our initial building inventory/benchmarking beyond Edmonton. Our Edmonton office building climate inventory was completed in 2022 in conjunction with our involvement with Edmonton's Corporate Climate Leaders program and we are currently determining our reduction targets on the inventoried buildings and extending our benchmarking to buildings beyond Edmonton.
- we are establishing baseline data on Social and Governance topics.

The following sections detail our current practices and achievements with respect to ESG.

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:

- LED lights in all properties
- Motion-sensing lights in 80% of our office properties
- 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 - 2022 we achieved:
    - a 20% reduction in electricity consumption, or CO2 equivalent of 8,900 tonnes
    - a 7% reduction in natural gas consumption, or CO2 equivalent of 370 tonnes
    - a 45% reduction in emission intensity, or CO2 equivalent of 12,400 tonnes, a decrease of almost 2,000 tonnes over 2021.

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 its 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 and 2022, 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, 51% are female and 30% are visible minorities. The REIT Board is comprised of 43% female trustees.

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 7) are independent
- We appoint a lead trustee as the chair is Melcor's nominee and thus a related party
- 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 comprised of 100% independent trustees
- Half of the REIT's independent trustees are female
- 43% of the full board of trustees are female
- Half of the REIT's executive team is female

Glossary of Acronyms

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

Common Acronyms			
ACFO	adjusted cash flows from operations	**IFRS**	international financial reporting standards
AFFO	adjusted funds from operations	**KPI**	key performance indicators
FFO	funds from operations	**NCIB**	normal course issuer bid
DOT	declaration of trust	**NOI**	net operating income
GAAP	generally accepted accounting principles	**sf**	square feet
GBV	gross book value	**SLR**	straight-line rent
GHG	greenhouse gas	**WABR**	weighted average base rent
GLA	gross leasable area		

Please refer to Non-GAAP and Non-Standard Measures on page 35 for further information and reconciliation to GAAP measures where applicable.

2022 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 35.

Financial Highlights

	Three-months ended December 31			Year ended December 31		
($000s)	**2022**	2021	△%	**2022**	2021	△%
Non-Standard KPIs						
Net operating income (NOI)[5]	**11,460**	11,640	(2)%	**46,319**	47,764	(3)%
Same-asset NOI[5]	**11,248**	11,428	(2)%	**45,523**	46,858	(3)%
Funds from Operations (FFO)[5]	**5,781**	6,371	(9)%	**24,725**	26,681	(7)%
Adjusted Funds from Operations (AFFO)[5]	**3,523**	4,608	(24)%	**17,248**	20,005	(14)%
Adjusted Cash Flows from Operations (ACFO)[5]	**3,679**	6,135	(40)%	**17,873**	20,593	(13)%
Rental revenue	**18,797**	18,542	1 %	**74,105**	74,094	– %
Income before fair value adjustment[5]	**3,529**	3,185	11 %	**13,260**	15,287	(13)%
Fair value adjustment on investment properties[1]	**(9,130)**	214	nm	**(11,995)**	2,879	nm
Cash flow from operations	**4,394**	3,927	12 %	**11,936**	14,881	(20)%
Distributions to unitholders	**1,555**	1,556	– %	**6,222**	5,778	8 %
Distributions[2]	**$0.120**	$0.120	– %	**$0.480**	$0.445	8 %
Per Unit Metrics						
Net income (loss)						
Basic	**($0.09)**	$0.98		**$2.28**	($1.25)	
Diluted	**($0.09)**	$0.98		**$0.59**	($1.25)	
Weighted average number of units for net income (loss) ($000s):[3]						
Basic	**12,963**	12,995	– %	**12,964**	12,989	– %
Diluted	**36,255**	12,995	179 %	**29,089**	12,989	124 %
FFO						
Basic[6]	**$0.20**	$0.22		**$0.85**	$0.92	
Diluted[6]	**$0.19**	$0.21		**$0.82**	$0.87	
Payout ratio[6]	**60%**	55%		**56%**	49%	
AFFO						
Basic[6]	**$0.12**	$0.16		**$0.59**	$0.69	
Payout ratio[6]	**99%**	76%		**81%**	65%	
ACFO						
Basic[6]	**$0.13**	$0.21		**$0.61**	$0.71	
Payout ratio[6]	**95%**	57%		**78%**	63%	
Weighted average number of units for FFO, AFFO & ACFO (000s):[4]						
Basic	**29,088**	29,114	– %	**29,089**	29,114	– %
Diluted	**36,255**	36,290	– %	**36,255**	36,290	– %

(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 $0.04 per unit per month from January to December 2022. Distributions for the comparative 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.
(3) For the purposes of calculating per unit net income (loss) 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 35 for further information.
(6) Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 35 for further information.

	31-Dec-22	31-Dec-21	△%
Total assets ($000s)	**730,769**	735,668	(1)%
Equity at historical cost ($000s)[1]	**288,196**	288,234	— %
Indebtedness ($000s)[2]	**440,688**	446,769	(1)%
Weighted average interest rate on debt	**4.01%**	3.62%	11 %
Debt to GBV, excluding convertible debentures (maximum threshold - 60%)[5]	**51%**	49%	4 %
Debt to GBV (maximum threshold - 65%)[5]	**57%**	58%	(1)%
Finance costs coverage ratio[3]	**2.32**	2.45	(5)%
Debt service coverage ratio[4]	**1.88**	2.06	(9)%

(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 20 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 convertible debentures, unamortized discount and transaction costs. Please refer to the Liquidity & Capital Resources section on page 19 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 35 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. This metric is not calculated for purposes of covenant compliance on any of our debt facilities. Please refer to page 35 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 35 for further information.

Operational Highlights

	31-Dec-22	31-Dec-21	△%
Number of properties	**39**	39	— %
Gross leasable area (GLA) (sf)	**3,216,141**	3,216,175	— %
Occupancy (weighted by GLA)	**88.1%**	87.1 %	1 %
Retention (weighted by GLA)	**86.1%**	81.7 %	5 %
Weighted average remaining lease term (years)	**4.25**	3.86	10 %
Weighted average base rent (per sf)	**$16.55**	$16.73	(1)%

Highlights:

With positive leasing performance ensuring our assets produce consistent and stable results, 2022 was a steady year for the REIT. Revenue remained flat and NOI was down 3% over 2021. Distributions remained at $0.04 per unit throughout the year for an annual ACFO payout ratio of 78%. We continued to proactively renew leases with existing tenants and achieved a healthy retention rate of 86.1% for the year on 368,296 sf of renewals and holdovers. We also continue to pursue new tenant opportunities and commenced 133,901 sf in new leases in 2022. Occupancy increased 1.0%, ending the year at 88.1%. Committed occupancy was 89.9% at the end of 2022.

The factors that contributed most significantly to results in 2022 compared to 2021 are as follows:

- **Early Termination event**: In Q1-2021, we received $1.00 million for the early lease termination of a fast food chain which was included in other revenue, impacting comparative year-to-date results.
- **Non-cash Fair Value Adjustments:** Non-cash fair value adjustments may cause significant variability in results, making comparison less meaningful. Class B LP units, investment properties, and derivative instruments (convertible debenture conversion feature and swaps on floating for fixed interest rates) all had significant swings from 2021 to 2022 as detailed below:

	Year ended December 31		
($000s)	2022	2021	△%
Net income/(loss)	**29,610**	(16,287)	
Fair value adjustment on Class B LP Units	**(20,318)**	31,606	
Fair value adjustment on investment properties	**11,995**	(2,879)	
Fair value adjustment on derivative instruments	**(8,027)**	2,847	
Income before fair value adjustment[1]	**13,260**	15,287	(13)%

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 35 for further information.

Management considers FFO and ACFO better measures of our performance as these non-cash items are removed from those metrics.

- **Distribution Increase:** Our monthly distributions increased by 14% to $0.04 per unit in August 2021 resulting in our annual 2022 distributions being 8% in 2022 compared to 2021. This increased distributions recorded through both equity (trust units) and finance costs (Class B units) in the current year compared to 2021.

FINANCIAL HIGHLIGHTS

- Revenue was steady at $74.11 million (2021 - $74.09 million). Excluding the Early Termination event, revenue was up 1%.
- NOI was down 3% to $46.32 million (2021- $47.76 million). Excluding the Early Termination event, NOI was down 1%.
- FFO was down 7% to $24.73 million or $0.85 per unit (2021 - $26.68 million or $0.92 per unit). Excluding the Early Termination event, FFO was was down 4%.
- ACFO was down 13% to $17.87 million or $0.61 per unit (2021 - $20.59 million or $0.71 per unit). Excluding the Early Termination event, ACFO was down 9%.

Management believes FFO best reflects our true operating performance and 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 and thus not a meaningful metric to assess financial performance.

ACFO for the fourth quarter and year-to-date were impacted by changes in estimate on our normalized capital expenditures and normalized tenant incentives and direct leasing costs. We adjusted our estimates for future spend required to attract and retain tenants.
As at December 31, 2022 we had $3.30 million in cash and $2.41 million in additional capacity under our revolving credit facility. During 2022 we completed financing renewals on 6 properties, totaling $44.64 million in renewals (at joint venture ownership) for net proceeds of $11.05 million. Interest rates on renewals during the year ranged from fixed rates of 3.70% to 5.52%, and prime plus 1%.

In December, we repaid the 2017 Debenture using capital available on our credit facility, resulting in $22.98 million in debenture payments included in our financing activities.

OPERATING HIGHLIGHTS

We are pleased with the volume of new leasing, renewals and holdovers completed in 2022. Positive leasing activity led to a 1.0% increase in occupancy to 88.1% as at December 31, 2022. We continue to execute on our proactive leasing strategy to both retain existing and attract new tenants. We completed lease renewals representing 368,296 sf (including holdovers) for a retention rate of 86.1% at December 31, 2022. New leasing has been steady across the portfolio with 133,901 sf in new deals commencing in 2022 and an additional 127,358 sf committed for future occupancy. The two larger new tenants that we announced in February 2022, Edmonton Unlimited (previously Innovate Edmonton) and the Habitat for Humanity ReStore took possession of over 40,000 sf combined space in October and March respectively. They will contribute to rental revenue in future periods.

UNITHOLDER HIGHLIGHTS

We paid stable monthly distributions at a rate of $0.04 per unit from January to December, after a 14% increase in August 2021. Our annual payout ratio was 78% based on ACFO (2021 - 63%) and 56% based on FFO (2021 - 49%).

The Board appointed Naomi Stefura as a new Trustee for the REIT in December 2022. Ms. Stefura is the CFO of the REIT and Executive Vice-President and CFO of Melcor Developments Ltd. and has been involved with the REIT since its inception.

SUBSEQUENT EVENTS

Distributions declared

On January 16, 2023, we declared the following distributions:

Month	Record Date	Distribution Date	Distribution Amount
January 2023	January 31, 2023	February 15, 2023	$0.04 per unit
February 2023	February 28, 2023	March 15, 2023	$0.04 per unit
March 2023	March 31, 2023	April 14, 2023	$0.04 per unit

Asset Disposition

On February 1, 2023, we sold an investment property for $19.50 million ($19.02 million net of transaction costs). Proceeds from the sale were used to repay the outstanding principle balance on the mortgage, with the remaining cash of $9.03 million being used to reduce our borrowings on our credit facility.

Revolving credit facility

On February 10, 2023 we entered in the fourth amendment to our revolving credit agreement with our existing lenders (the "Credit Facility Amendment"). The most significant amendments were the increase to our available credit limit $35.00 million to $50.00 million and the addition of an investment property with a carrying value of $11.91 million being added as collateral.

Consolidated Revenue & Net Operating Income

($000s)	Year ended December 31 2022	2021	△%
Base rent	48,177	48,271	— %
Recoveries	26,814	26,315	2 %
Other	2,388	3,518	(32)%
Amortization of tenant incentives	(3,725)	(4,218)	(12)%
Straight-line rent adjustments	451	208	117 %
Rental revenue	74,105	74,094	— %
Operating expenses	14,691	14,558	1 %
Utilities and property taxes	16,369	15,782	4 %
Direct operating expenses	31,060	30,340	2 %
Net rental income	43,045	43,754	(2)%
NOI(1)	46,319	47,764	(3)%
Same-asset NOI(1)	45,523	46,858	(3)%
Operating margin(2)	58 %	59 %	(2)%

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 35 for further information.
(2) Supplementary financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 35 for further information.

Revenue

Rental revenue was flat over 2021. Higher revenue from recoveries and straight-line rent adjustments offset a decrease in other revenue and swings in amortization of tenant incentives. 2021 other revenue includes $1.00 million in lease break fees (Early Termination event). Excluding the one-time payment, rental revenue was up 1%.

In 2022 we completed 368,296 sf of lease renewals (including holdovers) and had 133,901 sf in new leases commence which improved our occupancy slightly to 88.1% (2021 - 87.1%). We continue to see activity and opportunity across our portfolio in all asset classes continues and held a healthy retention rate of 86.1% (2021 - 81.7%) on our portfolio of assets.

The table below summarizes leasing activity for 2022:

	Square feet	Weighted average base rent (per sf)	Occupancy %
Opening occupancy	**2,800,231**	**$16.73**	**87.1 %**
Expiring leases	(427,669)	$13.85	
Other terminations	(31,234)	$13.26	
Renewals/holdovers	368,296	$13.77	
New leasing	133,901	$14.19	
Lease amendments	(11,058)	—	
Closing occupancy	**2,832,467**	**$16.55**	**88.1 %**

Year-end weighted average base rent was down at $16.55 and occupancy was up at 88.1% (2021: $16.73 and 87.1%).

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, 2022	Dec 31, 2021	△%
Weighted average base rent (per sf)	**$16.55**	$16.73	(1)%
Weighted average remaining lease term	**4.25**	3.86	10 %
GLA	**3,216,141**	3,216,175	– %
Occupancy	**88.1 %**	87.1 %	1 %
Retention	**86.1 %**	81.7 %	5 %

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. Compared to 2021, both recovery revenue and direct operating expenses increased 2%. Our recovery ratio (recoveries divided by direct operating expenses) remained steady compared to 2021 at 86.3%.

Other revenue includes parking revenue and other miscellaneous revenue that is ancillary to our business and fluctuates from period to period. The Early Termination event ($1.00 million in Q1-2021) skews the comparative results. Excluding this, other revenue was down 5%.

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.

Direct operating expenses

Direct operating expenses were up 2% over 2021 due to higher property taxes and utilities. Property taxes and utilities were up 4% over 2021. Utility costs, including heating costs and air conditioning costs, fluctuate depending on weather conditions in the regions where our assets are located as well as prevailing utility rates, which are generally higher in Alberta where the majority of our properties are located. Property tax increases are the result of increased mill rates over the prior year.

Operating expenses remained stable over 2021. Operating expenses vary period by period depending on the timing of maintenance projects undertaken.

Inflationary pressures are driving up utility bills, including heating, gas and electricity. We expect these increases to impact operating expenses throughout 2023.

NOI and Same-Asset NOI

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 35 of this MD&A for more information.

NOI and same-asset NOI were down 3% over 2021 due to lease termination fees received from the Early Termination event in 2021. Excluding this, NOI and same-asset NOI were down 1% which is consistent with the increased direct operating expenses noted above.

Same-asset NOI varies from NOI in the below table due to the the reclassification of an office building in Kelowna, BC as Asset Held for Sale as at December 31, 2022. This amount is excluded from both the current and comparative periods in the below table. There have been no acquisitions or dispositions over the past three years.

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

	Year ended December 31		
($000s)	**2022**	**2021**	△%
Same-asset NOI[1]	**45,523**	46,858	(3)%
Acquisitions	**–**	–	
Disposals / Asset held for sale	**796**	906	
NOI[1]	**46,319**	47,764	(3)%
Amortization of tenant incentives	**(3,725)**	(4,218)	
Straight-line rent adjustments	**451**	208	
Net rental income	**43,045**	43,754	(2)%

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 35 for further information.

Property Profile

At December 31, 2022 our portfolio includes interests in 39 retail, office and industrial income-producing properties located in western Canada for a total of 3,216,141 sf of GLA, and a land lease community. Subsequent to year-end we sold an office building in Kelowna, BC. This reduced our portfolio to 38 properties and 3,144,065 sf of GLA. The below analysis removes this property from same-asset NOI.

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 2022 ($000s)
Retail	14	1,396,482	43.4 %	413,175	25,555
Office	21	1,611,568	50.1 %	250,011	13,644
Industrial	3	208,091	6.5 %	39,696	2,846
Land Lease Community	1	308 lots	n/a	16,800	1,000
	39	**3,216,141**	**100.0 %**	**719,682**	**43,045**

(1) Supplementary financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 35 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	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Year ended December 31 ($000s)								
Rental revenue	**38,142**	38,214	**30,837**	30,882	**3,731**	3,629	**1,395**	1,369
Net rental income	**25,555**	25,559	**13,644**	14,396	**2,846**	2,833	**1,000**	966
Same-asset NOI[1]	**26,080**	26,250	**15,304**	16,549	**3,139**	3,093	**1,000**	966
As at December 31								
Weighted average base rent (sf)	**$19.90**	$20.09	**$13.30**	$13.61	**$14.92**	$14.75	**n/a**	n/a
Occupancy	**94.4 %**	91.9 %	**81.1 %**	81.2 %	**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 35 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 and net rental income remained stable and same-asset NOI was down 1% over 2021. Excluding the Early Termination event, rental revenue was up 2% and NOI was up 3% in the year.

Occupancy on our retail properties improved 2.5% over 2021. Tenant retention was strong at 88% including renewals and holdovers and we completed 55,253 sf in new leasing during 2022.

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 stable compared to 2021. Net rental income decreased 5% as a result of increases in operating expenses (up 3%) and utilities and property taxes (up 5%). Same asset NOI excludes the asset held for sale at year end in the current and comparative periods.

Our WABR is down slightly due to strong competition in the Edmonton office market coupled with the impact of work from home measures initiated in 2020, which are still being felt in downtown properties. Despite these factors, occupancy remained steady at 81% and retention was a healthy 82% at December 31, 2022.

Industrial - our 3 industrial properties include single and multi-tenant buildings. Our industrial assets remained fully occupied through 2022. Direct operating expenses were up 11% in the year as inflationary pressures are felt across the industry. Higher tenant recoveries (included in rental revenue) due to increased operating expenses increased rental revenue by 3%. Net rental income remained stable over 2021.

Weighted average base rent was up $0.17 due to rent step-ups on current leases during 2022.

Land Lease Community – we have one land lease community in Calgary, AB consisting of 308 pad lots. It was 100% occupied at December 31, 2022 (2021 – 100%). Revenue and NOI on our land lease community was stable in 2022.

Regional Analysis

The following table summarizes the composition of our properties at December 31, 2022 by geographic region:

Geographic Region	Number of Properties	GLA (sf)	% of Portfolio (GLA)	Fair Value of Investment Properties ($000s)[1]	Net Rental Income 2022 ($000s)
Northern Alberta	22	1,958,858	60.9 %	429,940	24,298
Southern Alberta	10	887,799	27.6 %	219,796	15,024
Saskatchewan & British Columbia	7	369,484	11.5 %	69,946	3,723
	39	**3,216,141**	**100.0 %**	**719,682**	**43,045**

(1) Supplementary financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 35 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	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**
Year ended December 31 ($000s)						
Rental revenue	**43,666**	43,966	**23,121**	22,888	**7,318**	7,240
Net rental income	**24,298**	24,777	**15,024**	15,108	**3,723**	3,869
Same-asset NOI[1]	**26,359**	27,573	**15,827**	15,865	**3,337**	3,420
As at December 31						
Weighted average base rent (per sf)	**$16.82**	$17.23	**$17.31**	$17.22	**$13.49**	$13.08
Occupancy	**84.9 %**	83.6 %	**92.4 %**	92.8 %	**94.2 %**	91.8 %

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 35 for further information.

Northern Alberta - our Northern Alberta assets are located throughout the greater Edmonton area, including Leduc and Spruce Grove, and in Red Deer and Grande Prairie. Rental revenue was down 1% and net rental income was down 2% over 2021 due to the Early Termination event. Excluding the $1.00 million in additional revenue in the comparative results, rental revenue and net rental income were both up 2%.

Same-asset NOI also decreased due to the Early Termination event in the comparative period. Excluding the early termination fees, NOI was flat over 2021.

Southern Alberta - our Southern Alberta assets are located throughout the greater Calgary area, including Chestermere and Airdrie, and in Lethbridge. Rental revenue, net rental income and same-asset NOI remained stable compared to 2021 with both occupancy and WABR remaining relatively consistent. Retention in the Southern Alberta region was strong at 93%.

Saskatchewan and British Columbia - our Saskatchewan and British Columbia assets are located in Regina, Saskatchewan and Kelowna, British Columbia. Rental revenue was up by 1% due to improved occupancy and weighted average base rents. Both net rental income and same-asset NOI saw slight decreases due to the impact of upward inflationary pressure on operating costs. Same-asset NOI in the above calculations excludes the asset held for sale at year end in the current and comparative periods.

General & Administrative Expense

	Year ended December 31		
($000s)	**2022**	**2021**	△%
Asset management fee	**1,916**	1,916	– %
Professional fees	**691**	394	75 %
Public company costs	**342**	313	9 %
Other	**409**	330	24 %
	3,358	2,953	14%

General & administrative (G&A) expense were $3.36 million (4.5% of rental revenue) in 2022 compared to $2.95 million (4.0% of rental revenue) in 2021. The 14% increase in G&A was primarily due to significant increases in legal and accounting professional fees as we contemplated options for the repayment of our expiring 2017 Debenture, and higher appraisal fees as our investments properties are valued

on a rotational basis. With the full revaluation of properties that occurred in 2020, many properties were due for revaluation in 2022. We are proactively working to schedule portfolio revaluations so that they are more evenly distributed.

Asset management fees, which are based on the gross book value of the portfolio, remained consistent as the portfolio is unchanged from the prior period. 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

	Year ended December 31		
($000s)	**2022**	2021	△%
Interest on mortgages payable and revolving credit facility	**11,898**	11,314	5 %
Interest on Class C LP Units	**1,374**	1,550	(11)%
Interest on convertible debentures	**3,553**	3,553	– %
Accretion on convertible debentures	**625**	588	6 %
Fair value adjustment on derivative instruments	**(8,027)**	2,847	nm
Amortization of deferred financing fees	**1,268**	1,363	(7)%
Finance costs before distributions	**10,691**	21,215	(50%)
Distributions on Class B LP Units	**7,740**	7,176	8 %
Finance costs	**18,431**	28,391	(35)%

Finance costs were significantly impacted by non-cash fair value adjustments on derivative financial instruments. In 2022 we recorded fair value gains of $8.03 million compared to losses of $2.85 million related to our derivative financial instruments. Excluding these adjustments, finance costs before distributions were up 2% and finance costs were up 4%.

Distributions on Class B LP Units are equal to those declared on trust units and were up due to the 8% increase in distributions to $0.48 per unit compared to $0.45 per unit in 2021.

Interest rate increases led to higher interest on our mortgages payable and revolving credit facility. As at December 31, 2022, the weighted average interest rate on our revolving credit facility, mortgages payable, Class C LP Units and convertible debentures was 4.01% based on period end balances (December 31, 2021 – 3.62%). Significant inflationary increases on borrowings correlate to Bank of Canada prime interest rates which more than doubled during the year.

Income Taxes

As at December 31, 2022, the REIT qualifies as a mutual fund trust within the meaning of the Income Tax Act (Canada) and as a real estate investment trust eligible for the 'REIT Exception' under the Specified Investment Flow-Through (SIFT) rules; accordingly, no current or deferred income tax expense has been recognized on income earned or capital gains recognized subsequent to the formation of the REIT.

FFO, AFFO & ACFO

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 35 of this MD&A for more information.

FFO & AFFO

We use Real Property Association of Canada (REALpac) definitions for some measures. REALpac is a national association representing commercial real estate in Canada. REALpac defines Funds 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)	**2022**	**2021**	△%
Net income (loss) for the year	**29,610**	(16,287)	
Add / (deduct)			
Fair value adjustment on investment properties	**11,995**	(2,879)	
Fair value adjustment on Class B LP Units	**(20,318)**	31,606	
Amortization of tenant incentives	**3,725**	4,218	
Distributions on Class B LP Units	**7,740**	7,176	
Fair value adjustment on derivative instruments	**(8,027)**	2,847	
Funds From Operations (FFO)[1]	**24,725**	26,681	(7)%
Deduct			
Straight-line rent adjustments	**(451)**	(208)	
Normalized capital expenditures	**(2,514)**	(2,352)	
Normalized tenant incentives and leasing commissions	**(4,512)**	(4,116)	
Adjusted Funds from Operations (AFFO)[1]	**17,248**	20,005	(14)%
FFO/Unit[2]	**$0.85**	$0.92	
AFFO/Unit[2]	**$0.59**	$0.69	
Weighted average number of units (000s):[3]	**29,089**	29,114	— %

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 35 for further information.
(2) Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 35 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)	**2022**	**2021**	△%
Funds From Operations (FFO)[1]	**24,725**	26,681	(7)%
Convertible debentures interest	**3,553**	3,553	
Amortization of deferred financing fees	**769**	735	
Accretion on convertible debentures	**625**	588	
Funds From Operations - Diluted (FFO - Diluted)[1]	**29,672**	31,557	(6)%
FFO - Diluted/Unit[2]	**$0.82**	$0.87	
Diluted weighted average number of units (000s):[3]	**36,255**	36,290	— %

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 35 for further information.
(2) Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 35 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 meet meet environmental targets. 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)	2022	2021
Actual capital expenditures	3,452	2,322
Normalized capital expenditures	2,514	2,352
Variance	938	(30)

Actual capital expenditures exceeded normalized capital expenditures by $0.94 million for the twelve-months ended December 31, 2022 (2021 - below normalized capital expenditures by $0.03 million). Our 2022 actual capital expenditures include some previously delayed projects as the REIT focused on conserving cash in response to the COVID-19 pandemic. Larger projects include boiler, chiller and roof replacements, which will improve energy efficiency and amenity upgrades, parking lot work and elevator retrofits, which improve building attractiveness for existing and potential tenants. Some capital projects undertaken in 2022 are eligible for various energy efficiency rebates, which will reduce actual expenditures in future years.

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)	2022	2021
Actual tenant incentives and direct leasing expenditures	8,663	6,246
Normalized tenant incentives and direct leasing expenditures	4,512	4,116
Variance	4,151	2,130

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. Larger leases signed in early 2022 required significant work in tenant spaces, resulting in higher spend for the year with accruals of $1.0+ million for two tenants. Costs tend to vary year over year depending on leasing levels and the space being leased.

We have adjusted our estimate for normalized capital expenditures and normalized tenant incentives and direct leasing costs in the fourth quarter due to increases realized in the past and projections for future spend required to attract and retain tenants.

ACFO

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)	2022	2021	△%
Cash flows from operations	11,936	14,881	(20)%
Distributions on Class B LP Units	7,740	7,176	
Actual payment of tenant incentives and direct leasing costs	8,779	6,130	
Changes in operating assets and liabilities	(2,288)	237	
Amortization of deferred financing fees	(1,268)	(1,363)	
Normalized capital expenditures	(2,514)	(2,352)	
Normalized tenant incentives and leasing commissions	(4,512)	(4,116)	
Adjusted Cash Flows from Operations (ACFO)[1]	17,873	20,593	(13)%
ACFO/Unit[2]	$0.61	$0.71	
Weighted average number of units (000s):[3]	29,089	29,114	– %

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 35 for further information.
(2) Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 35 for further information.
(3) The diluted weighted average number of units includes Trust Units and Class B LP Units.

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. Current monthly distributions are $0.04 per unit, unchanged from August 2021. From January to July 2021, distributions were $0.035 per unit. Distributions to unitholders during the year were $6.22 million (2021 - $5.78 million).

Distributions made during the year ended December 31, 2022 represent a payout ratio of approximately 78% of ACFO (2021 - 63%). On an FFO basis, distributions represent a payout ratio of 56% (2021 - 49%).

We use ACFO in evaluating our ability to continue to fund distributions. The most similar IFRS measure is cash flow from operations. Cash flow from operations, which includes Class B LP Unit distributions as a financing charge, exceeded distributions by $5.71 million in 2022 (2021 - $9.10 million) as illustrated below:

	Year ended December 31		
($000s)	**2022**	2021	△%
Cash flows from operations	**11,936**	14,881	(20)%
Distributions on Class B LP Units	**7,740**	7,176	8 %
Cash flows from operations before Class B LP Unit distributions	**19,676**	22,057	(11)%
Distributions to unitholders	**(6,222)**	(5,778)	8 %
Distributions on Class B LP Units	**(7,740)**	(7,176)	8 %
Total distributions	**(13,962)**	(12,954)	8 %
Cash flows from operations before Class B LP Unit distributions less total distributions	**5,714**	9,103	(37)%
Total distributions as a % of cash flows from operations before Class B LP Unit distributions	**71 %**	59 %	20 %

Investment Properties

As at December 31, 2022 we owned 39 income-producing office, retail and industrial properties representing 3.22 million sf in GLA and a fair value of $719.68 million. The change in the fair value of our portfolio is summarized as follows:

	Investment Properties	Investment Property Held for Sale	Fair Value of Portfolio[1]
Balance, December 31, 2021	**723,729**	**–**	**723,729**
Additions:			
Property improvements	3,452	–	3,452
Direct leasing costs	1,393	–	1,393
Tenant incentive additions	7,270	–	7,270
Investment property classified as held for sale during the year	(19,500)	19,500	–
Straight-line rent adjustments	451	–	451
Amortization of tenant incentives	(3,725)	–	(3,725)
Fair value adjustment on investment properties	(11,995)	–	(11,995)
Other adjustments	(893)	–	(893)
Balance, December 31, 2022	**700,182**	**19,500**	**719,682**

(1) Supplementary financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 35 for further information.

Additions – during 2022 we invested $3.45 million in property improvements as part of our strategy to improve our assets to retain and attract tenants and to increase energy efficiency, up from $2.32 million in 2021. The majority of these investments are recoverable from tenants over 5-25 years. We also spent $8.66 million on tenant incentives and direct leasing costs to lease 502,197 sf ($16.62 per sf) in 2022, up from $6.25 million spent on 316,645 sf ($19.73 per sf) in 2021.

Held for sale – as at December 31, 2022 we held an investment property with a fair value of $19.50 million for sale with closing pending in early 2023. At year end, $19.09 million in investment properties and $0.41 million in other assets (tenant incentives and SLR) was reclassified as held for sale. This sale closed on February 1, 2023.

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, 2022	Dec 31, 2021
Number of properties	**39**	39
Total GLA (sf)	**3,346,240**	3,346,274
GLA (REIT owned %) (sf)	**3,216,141**	3,216,175
Fair value of portfolio ($000s)	**700,182**	723,729
Value per square foot	**$218**	$225
NOI ($000s)	**46,319**	47,764
Weighted average capitalization rate	**7.08 %**	6.81 %
Weighted average terminal cap rate	**7.16 %**	6.90 %
Weighted average discount rate	**8.04 %**	7.86 %

Investment properties were valued by Melcor's internal valuation team with the assistance of qualified independent external valuation professionals. In 2022, external valuation professionals valued 44 investment properties (of 53 legal phases) with fair value of $578.35 million (including amounts presented as tenant incentives and straight-line rent adjustments), resulting in a fair value loss of $12.00 million.

In 2021, external valuation professionals valued 10 investment properties (of 53 legal phases) with fair value of $130.25 million (including amounts presented as tenant incentives and straight-line rent adjustments), resulted in fair value gains of $2.88 million. Please refer to note 26 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)	2022	2021	$△
Northern Alberta	**(8,940)**	1,273	(10,213)
Southern Alberta	**(7,362)**	2,089	(9,451)
Saskatchewan & British Columbia	**4,307**	(483)	4,790
	(11,995)	2,879	(14,874)

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

Fair value adjustments represent a change of approximately 1.7% (2021 - 0.4%) in the fair value of our portfolio. In 2022, the market saw a significant increase to interest rates, causing an increase in the cost of borrowing and overall risk of investing. This caused an increase in capitalization rates which translates to a decrease in fair value on investment properties. At year-end, we had accepted an offer to purchase an investment property and the property was reclassified as asset held for sale. The offer to purchase was in excess of the carrying value of the property at the time the offer was accepted, resulting in a fair value adjustment on the property included in the $4.31 million gain above. This sale closed on February 1, 2023.

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, 2022			December 31, 2021		
	Min	**Max**	**Weighted Average**	Min	Max	Weighted Average
Capitalization rate	5.50%	10.00%	7.08%	5.50%	10.00%	6.81%
Terminal capitalization rate	6.00%	8.75%	7.16%	5.75%	9.00%	6.90%
Discount rate	6.25%	9.75%	8.04%	6.25%	9.75%	7.86%

A capitalization rate increase of 50 basis points (+0.5%) would decrease the fair value of investment properties by $47.30 million (2021 - $49.70 million) while a 50 basis points decrease (-0.5%) would increase it by $54.50 million (2021 - $57.50 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, 2022			December 31, 2021		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Retail	5.75%	8.75%	6.95%	5.50%	8.25%	6.65%
Office	6.00%	10.00%	7.56%	5.75%	10.00%	7.25%
Industrial	6.75%	8.50%	7.28%	6.25%	9.00%	7.07%

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:

	Year ended December 31		
($000s)	2022	2021	$△
Cash from operating activities	11,936	14,881	(2,945)
Cash used in investing activities	(4,452)	(2,322)	(2,130)
Cash used in financing activities	(11,435)	(9,048)	(2,387)
(Decrease) increase in cash and cash equivalents	(3,951)	3,511	(7,462)
Cash and cash equivalents, beginning of year	7,255	3,744	3,511
Cash and cash equivalents, end of year	3,304	7,255	(3,951)

Operating activities

Cash from operating activities was down $2.95 million compared to 2021. Rent collections remain strong in 2022. Operating assets and liabilities fluctuate period over period. Cash before adjustments for working capital and payments of tenant incentives and direct leasing costs was down $2.82 million year-to-date. Cash received from the Early Termination event in 2021 contributed to this decrease.

Our distribution increase in August 2021 contributed to 8% year over year growth in annual distributions. Rising interest rates of overall increased debt caused the 5% increase in interest on mortgages and our revolving credit facility over 2021. These amounts are included in finance costs and in turn decrease net income, and cash from operations.

Competitive market conditions drove the 43% increase to tenant incentives and direct leasing costs. This investment led to 502,197 sf of new and renewed leasing and year end occupancy of 88.1%. Lease expiry timing and general portfolio vacancy impact tenant incentives and direct leasing spending, which fluctuates from period to period.

Investing activities

We invested $3.45 million in our 2022 capital program (2021 - $2.32 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. Asset enhancement investments fluctuate based on the nature and timing of projects undertaken.

Financing activities

During 2022 we completed financing renewals on 6 properties, totaling $44.64 million (at joint venture ownership) in renewals for net proceeds of $11.05 million.

Our 2017 Debenture expired in December 2022. Given prevailing market conditions, we determined that using our line of credit was the best option for repaying the debenture and financing activities included $22.98 million in debenture payouts. Our total credit facility borrowings in

2022 were $31.70 million, including funds borrowed for the debenture repayment. In the comparative period we re-financed 8 secured debts for gross proceeds of $74.29 million.

Up to our NCIB expiry on March 31, 2022, we repurchased 3,824 units at a cost of $0.03 million (2021 - 85,683 units, $0.53 million). The NCIB was not renewed to preserve liquidity and focus on financings coming due in the coming year, and monitor rising interest rates.

Our monthly distribution remained stable during 2022 at $0.04 per unit, after a 14% increase made in August 2021 from $0.035 per unit. Distribution to unitholders for the year were $6.22 million (2021 - $5.65 million). Subsequent to year-end, the Trustees of the REIT declared cash distributions of $0.04 per unit for the months of January, February and March 2023.

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, 2022, we had $3.30 million in cash and cash equivalents and $2.41 million in undrawn liquidity under our revolving credit facility.

Subsequent to year-end, we increased the maximum available credit limit from $35.00 million to $50.00 million, which provides $15.00 million in additional borrowing capacity. Furthermore, we closed on the sale of the investment property classified as held for sale at year-end on February 1, 2023 with net cash proceeds of $9.03 million being used to reduce borrowings on our 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 51% as at December 31, 2022 (57% including the convertible debenture) (2021 - 49% and 58% respectively).

As at December 31, 2022, the REIT's total capitalization was $728.88 million (2021 - $735.00 million), comprised as follows:

($000s)	**Dec 31, 2022**	**Dec 31, 2021**
Revolving credit facility[1]	31,697	–
Mortgages payable[1]	325,193	337,634
Class C LP Units	37,798	40,160
Indebtedness, excluding convertible debentures	**394,688**	377,794
Convertible debentures[2]	46,000	68,975
Indebtedness	**440,688**	446,769
Class B LP Units at Historical Cost[3]	160,207	160,207
Trust Units, excluding transaction costs	127,989	128,027
Equity at Historical Cost	**288,196**	288,234
Total capitalization	**728,884**	735,003
Gross Book Value ("GBV")[4]	**766,457**	766,457
Debt to GBV, excluding convertible debentures (maximum threshold - 60%)[5]	**51 %**	49 %
Debt to GBV (maximum threshold - 65%)[5]	**57 %**	58 %

(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 35 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, 2022 we were in compliance with our financial covenants. We also have financial covenants on certain mortgages for investment properties. At December 31, 2022 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:

		as at December 31					
($000s)	**Total**	**2023**	**2024**	**2025**	**2026**	**2027**	**Thereafter**
Revolving credit facility	31,697	31,697	–	–	–	–	–
Mortgages payable	325,193	56,339	47,415	23,395	54,267	17,982	125,795
Class C LP Units	37,798	26,657	458	474	10,209	–	–
Convertible debentures	46,000	–	46,000	–	–	–	–
Total	**440,688**	**114,693**	**93,873**	**23,869**	**64,476**	**17,982**	**125,795**
% of portfolio	100 %	26 %	21 %	5 %	15 %	4 %	29 %

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.

Under the terms of our revolving credit facility 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 agreement also provides the REIT with $5.00 million in available letters of credit which bear interest at 2.25%. Interest payments are due and payable based upon the form of the facility drawn upon, and principal is due and payable upon maturity. The agreement also bears a standby fee of 0.45% for the unused portion of the revolving facility. The lenders hold demand debentures, a first priority general security and a general assignment of leases and rents over specific investment properties as security for the facility. The facility matures on June 1, 2024 and has been amended subsequent to year-end. Refer to note 27 of the financial statements for information on the amendment.

During the year we re-financed six secured debts, including mortgages and Class C LP Unit debt, providing gross proceeds of $44.64 million at a rate of 4.43%. Over the next twelve months, four mortgages are up for renewal with a maturing principal balance of $46.12 million with a weighted average interest rate of 4.40%. We also have two properties 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 $25.47 million and a weighted interest rate of 4.13%. The financing environment, including commercial lending, has been significantly impacted by rising interest rates in the past 12 months and reduced liquidity. We continue to proactively look at upcoming renewals to assess the best time to refinance properties, and work with our lenders to re-finance debts at market competitive terms.

In January 2023, we renewed one mortgage at a rate of 5.69% which had a maturing principal balance of $2.00 million. In February 2023 we closed on the sale of an investment property (classified as asset held for sale at year-end) with proceeds being used to pay off the mortgage balance owing of $8.98 million. Net cash from the sale was used to pay down the credit facility by $9.03 million. This repayment to the credit facility paired with the amendment detailed in note 27 of the financial statements has created additional liquidity for the REIT.

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 Class C LP Units and convertible debentures bear interest at fixed rates, our mortgages payables are held at fixed rates except one variable rate mortgage (fixed includes four 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	31,697	–	31,697	7.70 %	1.42
Mortgages payable	325,193	319,317	5,876	3.51 %	4.53
Class C LP Units	37,798	37,798	–	3.89 %	1.40
Convertible debentures	46,000	46,000	–	5.10 %	2.00
Total	**440,688**	**403,115**	**37,573**	**4.01 %**	**3.77**

The weighted average interest rate on our debts was 4.01% (December 31, 2021 - 3.62%).

Debt Service Coverage Ratio and Finance Costs Coverage Ratio – Debt service coverage ratio is a non-GAAP ratio that we calculate as FFO divided by principal repayments on mortgages payable and Class C LP Units made during the period. Finance costs coverage ratio is a non-GAAP ratio that we calculate as FFO plus finance costs divided by finance costs expensed during the period, less distributions on Class B LP

Units. We consider these measures to be useful in evaluating our ability to service our debt. Refer to the Non-GAAP Measures section starting on page 35 of this MD&A for more information. These metrics are not calculated for purposes of covenant compliance on any of our debt facilities.

For the years ended December 31 ($000s)	2022	2021
FFO	**24,725**	26,681
Principal repayments on Mortgages payable	**10,792**	10,191
Principal repayments on Class C LP Units	**2,362**	2,744
Debt service coverage ratio[1]	**1.88**	2.06
FFO plus finance costs	**43,443**	45,049
Finance costs[2]	**18,718**	18,368
Finance costs coverage ratio[1]	**2.32**	2.45

(1) Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 35 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.

The REIT had an NCIB in place from April 1, 2021 to March 31, 2022. The daily maximum repurchase amount was 3,824 units to be purchased at market price at the time of acquisition. In 2022, we repurchased 3,824 units at a cost of $0.03 million (2021 - 85,683 units, $0.53 million). The NCIB was not renewed to preserve liquidity.

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

	December 31, 2022		December 31, 2021	
Issued and fully paid units ($000s)	**Units**	**$ Amount**	**Units**	**$ Amount**
Balance, beginning of year[1]	**12,966,993**	**128,027**	13,050,503	128,848
Issuance of trust units	**–**	**–**	2,173	25
Repurchase of trust units	**(3,824)**	**(38)**	(85,683)	(846)
Balance, end of year[1]	**12,963,169**	**127,989**	12,966,993	128,027
Dilutive securities				
Class B LP Units Historical Cost[2]	**16,125,147**	**160,207**	16,125,147	160,207
Convertible debentures[3]	**5,168,542**	**46,000**	7,166,367	68,975
Diluted balance, end of year	**34,256,854**	**334,196**	36,258,507	357,209

(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, 2022, 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 $2.29 million (2021 - $2.30 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, 2022 the loan balance was $3.17 million (2021 - $3.28 million).

Quarterly Results

	2022				2021			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue ($000s)	**18,797**	18,189	18,154	18,965	18,542	18,089	17,977	19,486
Net income (loss) ($000s)[1]	**(1,062)**	19,151	18,059	(6,538)	5,301	7,470	(4,619)	(24,439)
Net operating income (NOI)[4]	**11,460**	11,613	11,391	11,855	11,640	11,915	11,852	12,627
Funds from operations (FFO) ($000s)[4]	**5,781**	6,306	6,108	6,530	6,371	6,639	6,570	7,101
Adjusted funds from operations (AFFO) ($000s)[4]	**3,521**	4,464	4,352	4,911	4,608	4,982	4,811	5,604
Adjusted cash flows from operations (ACFO) ($000s)[4]	**3,679**	4,623	4,506	5,767	7,675	5,131	4,956	5,749
Per unit metrics								
Earnings (loss) per unit (basic)	**($0.09)**	$1.48	$1.39	($0.50)	$0.98	$0.58	($0.36)	($1.87)
FFO (basic)[5]	**$0.20**	$0.22	$0.21	$0.22	$0.22	$0.23	$0.23	$0.24
AFFO (basic)[5]	**$0.12**	$0.15	$0.15	$0.17	$0.16	$0.17	$0.17	$0.19
ACFO (basic)[5]	**$0.13**	$0.16	$0.15	$0.20	$0.26	$0.18	$0.17	$0.20
Annualized distribution rate[3]	**$0.480**	$0.480	$0.480	$0.480	$0.480	$0.480	$0.420	$0.420
FFO Payout Ratio[5]	**60%**	55%	57%	53%	55%	50%	47%	43%
AFFO Payout Ratio[5]	**99%**	78%	80%	71%	76%	67%	64%	55%
ACFO Payout Ratio[5]	**95%**	76%	77%	61%	46%	65%	62%	53%
Period-end closing unit price	**$5.53**	$5.75	$6.19	$7.23	$6.79	$6.85	$6.90	$6.49
Annualized distribution yield on closing unit price (%)[2]	**8.68 %**	8.35 %	7.75 %	6.64 %	7.07 %	7.01 %	6.09 %	6.47 %

(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) For 2022, monthly distributions were $0.04 per unit. The REIT increased its August-December 2021 distribution by 14% to $0.04 from $0.035 (January to July 2021).

(4) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 35 for further information.

(5) Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 35 for further information.

Fourth Quarter Results

Consolidated Revenue & Net Operating Income

	Three months ended December 31		
($000s)	**2022**	**2021**	△%
Base rent	**12,114**	12,087	— %
Recoveries	**6,929**	6,820	2 %
Other	**631**	742	(15)%
Amortization of tenant incentives	**(962)**	(1,251)	(23)%
Straight-line rent adjustment	**85**	144	(41)%
Rental revenue	**18,797**	18,542	1 %
Operating expenses	**4,081**	4,290	(5)%
Utilities and property taxes	**4,133**	3,719	11 %
Direct operating expenses	**8,214**	8,009	3 %
Net rental income	**10,583**	10,533	— %
NOI(1)	**11,460**	11,640	(2)%
Same-asset NOI(1)	**11,248**	11,428	(2)%
Operating margin(2)	**56 %**	57 %	(2)%

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 35 for further information.
(2) Supplementary financial measure. Refer to the Non-GAAP and Non-Standard measures section on page 35 for further information.

FOURTH QUARTER HIGHLIGHTS

- Revenue was up 1% at $18.80 million (Q4-2021 - $18.54 million).
- NOI was down 2% to $11.46 million (Q4-2021- $11.64 million).
- FFO was down 9% to $5.78 million or $0.20 per unit (Q4-2021 - $6.37 million or $0.22 per unit).
- ACFO was down 40% to $3.68 million or $0.13 per unit (Q4-2021 - $6.14 million or $0.21 per unit).

Fourth quarter rental revenue was up 1% over Q4-2021. Direct operating expenses were up 3% over Q4-2021. NOI and same-asset NOI were down 2% over Q4-2021 due to higher costs including utilities, property taxes and insurance over the comparative period which were not fully recovered. Same-asset NOI was adjusted to remove the asset held for sale at period end in the current and comparative periods. No other acquisitions or sales have been completed within the trailing 12 months.

General & Administrative Expense

	Three months ended December 31		
($000s)	**2022**	**2021**	△%
Asset management fee	**479**	479	— %
Professional fees	**296**	98	202 %
Public company costs	**87**	74	18 %
Other	**115**	87	32 %
	977	738	32 %

Asset management fees were stable over Q4-2021. Professional fees and other expenses fluctuate from period to period due to the timing of costs incurred. Increased legal and professional fees were incurred in the fourth quarter as we contemplated options for the repayment of our expiring 2017 Debenture, and higher appraisal fees on our investments properties which inflated professional fees in our fourth quarter.

Finance Costs

($000s)	Three months ended December 31 2022	2021	△%
Interest on mortgages payable and revolving credit facility	**3,088**	2,942	5 %
Interest on Class C LP Units	**367**	309	19 %
Interest on convertible debentures	**889**	888	–%
Accretion on convertible debentures	**158**	149	6%
Fair value adjustment on derivative instruments	**(991)**	(935)	6 %
Amortization of deferred financing fees	**294**	397	(26)%
Finance costs before distributions	**3,805**	3,750	**1%**
Distributions on Class B LP Units	**1,290**	1,935	(33)%
Finance costs	**5,095**	5,685	**(10)%**

Finance costs for the fourth quarter were down $0.59 million or 10% over Q4-2021. Before distributions, finance costs were up 1% due to rising interest rates impacting both our interest on mortgages payable and revolving credit facility and interest on Class C LP Units as well as higher overall debt levels. This was partially offset by a decrease in amortization of deferred financing fees and swings in the fair value adjustment on derivative instruments.

Distributions on Class B LP Units are recorded in the period that they are declared. Q4-2022 distributions above include two months of expense due to the timing of when distributions were declared. The comparative Q4-2021 period includes three months of distributions. Monthly distributions for both the current and comparative periods above remained steady at $0.04 per unit per month.

FFO & AFFO

($000s, except per unit amounts)	Three months ended December 31 2022	2021	△%
Net (loss)/income for the period	**(1,062)**	5,301	
Add / (deduct)			
Fair value adjustment on investment properties	**9,130**	(214)	
Fair value adjustment on Class B LP Units	**(3,548)**	(967)	
Amortization of tenant incentives	**962**	1,251	
Distributions on Class B LP Units	**1,290**	1,935	
Fair value adjustment on derivative instruments	**(991)**	(935)	
Funds From Operations (FFO)[1]	**5,781**	6,371	(9)%
Deduct			
Straight-line rent adjustments	**(83)**	(144)	
Normalized capital expenditures	**(750)**	(590)	
Normalized tenant incentives and leasing commissions	**(1,425)**	(1,029)	
Adjusted Funds from Operations (AFFO)[1]	**3,523**	4,608	(24)%
FFO/Unit[2]	**$0.20**	$0.22	
AFFO/Unit[2]	**$0.12**	$0.16	
Weighted average number of units (000s):[3]	**29,088**	29,114	– %

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 35 for further information.
(2) Non-GAAP ratio. Refer to the Non--GAAP and Non-Standard Measures section on page 35 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 9% and 24% over Q4-2021. Increased G&A expenses and higher interest costs had the largest impact on lower FFO and AFFO in the fourth quarter. Fourth quarter distributions to unitholders were $1.56 million (2021 - $1.56 million).

A reconciliation of cash flows from operations to ACFO is as follows.

	Three months ended December 31		
($000s)	2022	2021	△%
Cash flows from operations	4,394	3,927	12 %
Distributions on Class B LP Units	1,290	1,935	
Actual payment of tenant incentives and direct leasing costs	2,060	1,491	
Changes in operating assets and liabilities	(1,596)	798	
Amortization of deferred financing fees	(294)	(397)	
Normalized capital expenditures	(750)	(590)	
Normalized tenant incentives and leasing commissions	(1,425)	(1,029)	
Adjusted Cash Flows from Operations (ACFO)[1]	3,679	6,135	(40)%
ACFO/Unit[2]	$0.13	$0.21	
Weighted average number of units (000s):[1]	29,088	29,114	

(1) Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section on page 35 for further information.
(2) Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section on page 35 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 over the past ten years due to fluctuating oil price, pandemic related declines in economic activity, and fluctuations in net migration, which is currently trending to the highest in-migration levels of the past decade.

Our portfolio continues to face competitive pressure due to the significant new supply of office property in downtown Edmonton. This pressure contributes to increased costs associated with renewals and securing new leases as evidenced by increasing tenant incentives and direct leasing costs over the past several years. We continue to execute our strategic leasing program and continue to see positive interest across our portfolio.

Occupancy at year end was 88.1% compared to 87.1% at the end of the 2021. 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 12.1% of total GLA expiring in 2023, 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
2023	31,697	46,123	25,471	**103,291**	111,600	62 %	5.65 %
2024	–	38,254	–	**38,254**	129,800	59 %	3.75 %
2025	–	15,496	–	**15,496**	35,850	48 %	3.18 %
2026	–	47,454	9,715	**57,169**	123,350	53 %	3.00 %
2027	–	12,235	–	**12,235**	20,400	70 %	3.32 %
Thereafter	–	112,910	–	**112,910**	270,100	56 %	3.88 %
Total	31,697	272,472	35,186	**339,355**	691,100		

As at December 31, 2022 the REIT had two unencumbered assets with a fair value of $20.60 million.

Over the next twelve months, four mortgages are up for renewal with a maturing principal balance of $46.12 million and a weighted average interest rate of 4.40%. We also have two properties 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 $25.47 million and a weighted interest rate of 4.13%. The financing environment, including commercial lending, has been significantly impacted by rising interest rates in the past 12 months. We continue to proactively look at upcoming renewals to assess the best time to refinance properties, and work with our lenders to re-finance 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.

With a strong, diversified portfolio, focus on property management and client relationships, and a solid pipeline of over 4.66 million sf of high quality assets being developed over the next 5-10 years, we remain positioned to navigate changing times.

Business Environment & Risks

In addition to the specific risks discussed below, we are exposed to various risks and uncertainties, many of which are beyond our control. These risks could have an impact our business, 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. Unitholders should consider these risks and uncertainties when assessing the investment potential of the REIT.

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.

Adverse Global Market, Economic and Political Conditions

Adverse Canadian and global market, economic and political conditions, including credit market volatility and general economic uncertainty, unexpected or ongoing geopolitical events (including disputes between nations, war, terrorism or other acts of violence), could have a material adverse effect on our business, results of operations and financial condition. Potential impacts include the value of our properties, the availability of financing on favourable terms, our ability to make principal and interest payments on, or refinance, any outstanding debt when due, the occupancy rates in our properties, and our tenants ability to enter into new leases or satisfy rental payments under existing leases.

Real Estate Ownership

Real estate ownership is subject to varying levels of risk. These risks include changes to general economic conditions (including interest rates and the availability of mortgage financings and other types of credit), government and environmental regulations, local supply and demand (for example, oversupply of office or other commercial properties or reduced demand for real estate in a specific area), the attractiveness of our properties to potential tenants or purchasers, our ability to provide adequate maintenance at competitive costs, and competition from other real estate companies with similar available space.

Real estate assets are relatively illiquid. As a result, the REIT may not be able to rebalance its portfolio in response to changing economic or investment conditions. In recessionary times, it may be difficult to dispose of certain types of real estate. Holding costs associated with real estate are considerable, and we may be forced to dispose of properties at prices lower than appraised value to generate sufficient cash to make distributions and interest payments.

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.

The ongoing and significant carrying costs of real estate assets include property taxes, maintenance costs, mortgage payments, insurance and related charges. These costs must be paid whether or not the property is producing income sufficient to pay such costs. In order to preserve the desirability of rental space, we must maintain and sometimes improve our properties to meet market expectations.This may involve costs that we cannot pass on to tenants.

General declines in real estate markets, including changes in demand for real estate resulting from the global pandemic 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 to Online

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 convenience 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, 2022. 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. The table below shows our tenant mix at December 31, 2022.

TENANT INDUSTRY	GLA %	RENT %	TENANT PROFILE	GLA %	RENT %
Finance & Insurance	6	9	Local	34	34
Government	7	7	National	46	46
Hospitality	11	16	Regional	20	20
Industrial/Manufacturing	7	7			
Medical	7	8			
Oil & Gas	3	3			
Other	4	4			
Professional	21	17			
Retail	34	29			

Demand for Commercial Real Estate

The COVID pandemic and corresponding government and private responses have changed work dynamics, particularly impacting office properties and tenants serving the needs of workers in the downtown core of the areas where we operate. Off-site work, work from home and hybrid type arrangements have had a negative impact on both the REIT (demand for commercial real estate) and our tenants (demand for retail products and services). It is uncertain whether tenant demand for commercial property and visitor traffic in downtown areas will recover to or surpass pre-COVID levels.

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 may help to mitigate this competition 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 Class C 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 Class C 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 & Interest Rates

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 flow, 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. There is a risk that interest rates will continue to increase, which could result in a significant increase in the amount required to service debt. The following are potential impacts to our financial condition and results of operations:

- Refinancing terms may not be as favourable as the original terms;
- Payments of principal and interest on borrowings may leave us with insufficient cash resources to pay operating expenses;
- Cash flows may be insufficient to meet required payments of principal and interest;
- 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;
- 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 may be impacted;
- Rising interest rates generally correspond to a decrease in demand for properties and could have a material adverse effect on our ability to sell any of our properties if desired.

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.

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 on similar terms. Our cash flow and financial position would be adversely affected if our tenants were unable to meet their lease obligations, or if a significant amount of vacant space could not be leased on economically favourable 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
2023	90	340,061	10.6 %	$17.07
2024	100	388,759	12.1 %	$16.39
2025	103	454,928	14.1 %	$18.08
2026	87	336,671	10.5 %	$19.46
2027	80	435,741	13.5 %	$15.59
Thereafter	141	876,307	27.2 %	$15.13
Vacant Space	–	383,674	12.0 %	–
	601	**3,216,141**	**100.0 %**	

The following table illustrates the 2023 maturities by portfolio type and geographic area:

Property Type	Northern Alberta	Southern Alberta	Saskatchewan & British Columbia	Total
Retail	84,840	15,570	37,281	**137,691**
Office	164,942	24,670	12,758	**202,370**
Industrial	–	–	–	**–**
	249,782	**40,240**	**50,039**	**340,061**

2023 lease maturities includes 69,829 sf of leases (14 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 2023 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	Alberta Health Services	3.4 %	88,997	2.7 %	3	2	---
2	Staples	3.2 %	96,891	2.9 %	9	3	---
3	Government of Alberta	3.1 %	118,570	3.5 %	2	6	A+ /Aa3/AA(low)
4	Shoppers Drug Mart	2.9 %	44,228	1.3 %	4	3	BBB/-/BBB(high)
5	BasinTek LLC	2.6 %	88,699	2.7 %	1	1	---
6	NDT Global	2.6 %	44,328	1.3 %	3	1	---
7	Fountain Tire Ltd	2.0 %	30,514	0.9 %	6	1	---
8	Canadian Brewhouse	1.8 %	24,348	0.7 %	7	4	---
9	RONA	1.7 %	92,207	2.8 %	4	2	BBB+/Baa1/BBB(high)
10	Royal Bank of Canada	1.6 %	18,067	0.5 %	2	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 COVID-19 pandemic resulted in restrictive government measures. Future outbreaks of viruses or other contagions, epidemic or pandemic diseases including subsequent outbreaks of COVID 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.

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

We rely on Melcor Developments for management, administrative and operating services relating to the REIT's business via the Asset Management and Property Management Agreements. The Asset Management Agreement has a term of 5 years (commenced May 26, 2022), with automatic 5 year renewals. The Asset Management Agreement 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.

Insurance

The REIT carries comprehensive general liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for similar properties. There are, however, certain types of risks, generally of a catastrophic nature, such as wars or environmental contamination, which are either uninsurable or not insurable on an economically viable basis. Should an uninsured or underinsured loss occur, we could lose our investment in, and anticipated profits and cash flows from, one or more of our properties, but the REIT would continue to be obliged to repay any recourse mortgage indebtedness on such properties.

Changes in Law

We are subject to applicable federal, provincial, municipal, local and common laws and regulations governing the ownership and leasing of real property, taxes and other matters. It is possible that future changes in such laws or regulations, or changes in their application, enforcement or regulatory interpretation, could result in changes in the legal requirements affecting the REIT (including with retroactive effect). In addition, the political conditions in the jurisdictions in which we operate are also subject to change. Changes in investment policies or shifts in political attitudes may adversely affect our investments. Any changes in the laws to which the REIT is subject in the jurisdictions where we operate could materially affect our rights and title in and to the properties and the revenues we are able to generate from our investments.

Environmental Risk & Climate Change

The REIT is subject to various requirements (including federal, provincial and municipal laws) relating to environmental matters. The REIT bears the risk of assessment, remediation or removal of contamination, hazardous substances or other residual pollution 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.

The discovery of any residual pollution or contamination 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.

Our properties may be exposed to the impact of events caused by climate change, such as natural disasters and increasingly frequent severe weather such as floods, blizzards and rising temperatures, resulting 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 our buildings. Severe weather conditions could also result in increases to property insurance, and/or utility costs at our properties. Natural disasters, severe weather and climate change may all increase expenses and reduce cash flow.

We have formal policies and procedures to review and monitor environmental exposure, including the requirement to obtain Phase I environmental site assessments 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.

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

Climate change continues to attract the focus of governments, regulators and the general public as an important threat as the emission of greenhouse gases and other activities continue to negatively impact the planet.We face the risk that our properties will become subject to more stringent environmental laws and other government initiatives aimed at countering climate change and reducing greenhouse gas emissions, which could impose constraints on our operational flexibility or cause us to incur financial costs to comply with various reforms. 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.

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. Business disruptions, utility outages and information technology system and network disruptions due to cyber-attacks could seriously harm our operations and materially adversely affect our operating results. 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 our increased awareness of a risk of a cyber incident, do not provide assurance that our efforts will be effective or that attempted security breaches or disruptions will not be successful or damaging. Cyber-attacks and methods are evolving rapidly and we may not have the resources or technical sophistication to anticipate, prevent or recover from an attack.

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. The REIT may also be exposed to risk if the partners experience financial difficulties or seek the protection of bankruptcy, insolvency or other laws, which may result in additional financial demands on the REIT.

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 2022, we had three joint arrangements (2021 - three). Refer to note 21 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, 2022	Dec 31, 2021
Revenue	**5,379**	5,206
Earnings	**4,194**	2,531
Assets	**68,006**	65,279
Liabilities	**33,188**	33,226

Joint arrangement activity at 100% ($000s)	Dec 31, 2022	Dec 31, 2021
Revenue	**10,758**	10,412
Earnings	**8,388**	5,062
Assets	**136,012**	130,558
Liabilities	**66,376**	66,452

Related Party Transactions

Please refer to note 20 to the consolidated financial statements for information pertaining to transactions with related parties.

Subsequent Events

Please refer to note 27 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

We adopted the amendment to IAS 37, Provisions, contingent liabilities and contingent assets, during 2022. 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, 2022. 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, 2022.

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

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

Declaration of Trust

The investment guidelines and operating policies of the REIT are outlined in the Amended and Restated 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 8, 2023, the REIT was in compliance with all investment guidelines and operating policies stipulated in the DOT.

Non-GAAP and Non-Standard Measures

The REIT's financial statements are prepared in accordance with IFRS. Throughout this MD&A, we refer to terms known as non-GAAP financial performance measures that are not specifically defined in the CPA Canada Handbook or in IFRS. These non-standard measures may not be comparable to similar measures presented by other companies. We use REALpac definitions for FFO, ACFO and AFFO.

We believe that these non-standard measures are useful in assisting investors in understanding components of our financial results.

The non-standard terms that we refer to in this MD&A are defined below and are cross referenced, as applicable, to a reconciliation contained within this MD&A to the most comparable IFRS measure.

Calculations

We use the following calculations in measuring our performance.

Operating margin: is calculated as net rental income divided by rental revenue.

Net operating income (NOI): NOI is a non-GAAP financial measure and is defined as rental revenue, adjusted for amortization of tenant 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:

	Three months ended December 31			Year ended December 31		
($000s)	2022	2021	△%	2022	2021	△%
Net income/(loss)	**(1,062)**	5,301		**29,610**	(16,287)	
Net finance costs	**5,084**	5,675		**18,400**	28,361	
Fair value adjustment on Class B LP Units	**(3,548)**	(967)		**(20,318)**	31,606	
Fair value adjustment on investment properties	**9,130**	(214)		**11,995**	(2,879)	
General and administrative expenses	**977**	738		**3,358**	2,953	
Amortization of tenant incentives	**962**	1,251		**3,725**	4,218	
Straight-line rent adjustment	**(83)**	(144)		**(451)**	(208)	
NOI	**11,460**	11,640	(2)%	**46,319**	47,764	(3)%

Further discussion over NOI can be found under the Consolidated Revenue & Net Operating Income section of the MD&A starting on page 10.

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. Assets held for sale are not classified for continued use and are therefore adjusted for when calculating same-asset 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 10.

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 14.

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 14.

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 14.

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 14.

Adjusted cash flows from operations (ACFO): ACFO is 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 14.

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 14.

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 14.

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 19.

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 19.

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, 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 19.

Income before fair value adjustment : Income before fair value adjustment 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 to the most comparable IFRS measure, net income, is as follows:

	Three months ended December 31			Year ended December 31		
($000s)	2022	2021	△%	2022	2021	△%
Net income/(loss)	**(1,062)**	5,301		**29,610**	(16,287)	
Fair value adjustment on Class B LP Units	**(3,548)**	(967)		**(20,318)**	31,606	
Fair value adjustment on investment properties	**9,130**	(214)		**11,995**	(2,879)	
Fair value adjustment on derivative instruments	**(991)**	(935)		**(8,027)**	2,847	
Income before fair value adjustment	**3,529**	3,185	11 %	**13,260**	15,287	(13)%

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 11 is a supplementary financial measure and is calculated as the sum of the balance sheet balances for investment properties, asset held for sale, and other assets (TI's and SLR).