Press Release

for immediate distribution

Melcor REIT announces Q4 and 2022 annual results

Edmonton, Alberta | March 8, 2023

Melcor REIT (TSX: MR.UN) today announced results for the fourth quarter and year ended December 31, 2022. Annual rental revenue was steady at $74.11 million. Annual adjusted cash flow from operations (ACFO[1]) was down 13% to $17.87 million or $0.61 per unit as a result of higher spend on tenant incentives and direct leasing costs, as well as higher distributions on Class B LP units. ACFO better reflects our cash position and therefore our ability to pay distributions by excluding accretion expense, which is a non-cash item[1].

Andrew Melton, CEO of Melcor REIT commented: "The macro economic environment of 2022 was one of geopolitical conflict, rapidly rising interest rates and post-pandemic normalization. Despite this, and everything that has been thrown our way over the past decade, the REIT continues to post stable results. None of this would be possible without the diligent and steadfast commitment of the teams that take care of the REIT's properties, tenants and business - thank you for delivering exceptional service.

Of note, our building operations team handled over 2,600 service requests using our MelCARE app. Great care from our property management team contributed to a healthy retention rate of over 86%. And our leasing team continued to execute our proactive leasing strategy to retain existing and attract new tenants. They completed 133,901 sf in new leasing and retained over 368,000 sf in renewals and holdovers. Occupancy improved to 88% at the end of 2022, with future committed occupancy almost 2% higher at 90%.

In addition to operating resilience, financing activity was a big story for 2022. Our distributions paid to unitholders increased by 8%, we paid out the 2017 Debenture using our operating line of credit, and we refinanced six mortgages at an average interest rate of 4.43%. Subsequent to the year, we completed the strategic sale of an office building in Kelowna for net cash proceeds of $9.0 million after retiring the outstanding mortgage, which was used to pay down the operating line. We also entered into an amended agreement on our operating line of credit with an expanded limit. Together, these items create additional liquidity for the REIT.

With a strong, diversified portfolio and unwavering focus on real estate fundamentals and client relationships, we remain positioned to navigate changing times."

HIGHLIGHTS:

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.
- **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[1]:

Financial highlights of our performance are summarized below:

Fourth Quarter:

- 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).

Year-to-date:

- 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%.

1. *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 information in the press release below along with the Non-GAAP and Non-Standard Measures section on page 35 of the MD&A.*

- 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:

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% 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%. Committed occupancy was 89.9% at the end of 2022.

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%).

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.

Financial Highlights

($000s)	Three-months ended December 31 2022	2021	△%	Year ended December 31 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 22 for the calculation of Equity at historical cost.
(2) Calculated as the sum of total amount drawn on revolving credit facility, mortgages payable, Class C LP Units, excluding 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 ## 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)%

MD&A and Financial Statements

Information included in this press release is a summary of results. This press release should be read in conjunction with Melcor REIT's 2022 consolidated financial statements and management's discussion and analysis, which can be found on the REIT's website at www.MelcorREIT.ca or on SEDAR (www.sedar.com).

Conference Call & Webcast

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

The call will be webcast at https://www.gowebcasting.com/12433. A replay of the call will be available shortly after the call is concluded at the same address.

Annual General Meeting

We invite unitholders to join us at our annual general meeting on April 26, 2023 at 9:30 AM MT at the Fairmont Hotel Macdonald, Empire Ballroom, 10065 100 Street NW, Edmonton, AB. The meeting will also be webcast at https://www.gowebcasting.com/12426.

About Melcor REIT

Melcor REIT is an unincorporated, open-ended real estate investment trust. Melcor REIT owns, acquires, manages and leases quality retail, office and industrial income-generating properties with exposure to high growth western Canadian markets. As at December 31, 2022 its portfolio was made up of interests in 39 properties representing approximately 3.22 million square feet of gross leasable area located across Alberta and in Regina, Saskatchewan; and Kelowna, British Columbia. For more information, please visit www.MelcorREIT.ca.

Non-standard Measures

NOI, Same-asset NOI, FFO, AFFO and ACFO are key measures of performance used by real estate operating companies; however, they are not defined by International Financial Reporting Standards ("IFRS"), do not have standard meanings and may not be comparable with other industries or income trusts. These non-IFRS measures are more fully defined and discussed in the REIT's management discussion and analysis for the period ended December 31, 2022, which is available on SEDAR at www.sedar.com.

NOI Reconciliation

	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)%

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

Same-asset Reconciliation

	Three months ended December 31			Year ended December 31		
($000s)	2022	2021	△%	2022	2021	△%
Same-asset NOI[1]	**11,248**	11,428	(2)%	**45,523**	46,858	(3)%
Acquisitions	**–**	–		**–**	–	
Disposals / Asset Held for Sale	**212**	212		**796**	906	
NOI[1]	**11,460**	11,640	(2)%	**46,319**	47,764	(3)%
Amortization of tenant incentives	**(962)**	(1,251)		**(3,725)**	(4,218)	
Straight-line rent adjustments	**85**	144		**451**	208	
Net rental income	**10,583**	10,533	– %	**43,045**	43,754	(2)%

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

FFO & AFFO Reconciliation

	Three months ended December 31			Year ended December 31		
($000s, except per unit amounts)	2022	2021	△%	2022	2021	△%
Net income (loss) for the year	(1,062)	5,301		29,610	(16,287)	
Add / (deduct)						
Fair value adjustment on investment properties	9,130	(214)		11,995	(2,879)	
Fair value adjustment on Class B LP Units	(3,548)	(967)		(20,318)	31,606	
Amortization of tenant incentives	962	1,251		3,725	4,218	
Distributions on Class B LP Units	1,290	1,935		7,740	7,176	
Fair value adjustment on derivative instruments	(991)	(935)		(8,027)	2,847	
Funds From Operations (FFO)[1]	5,781	6,371	(9)%	24,725	26,681	(7)%
Deduct						
Straight-line rent adjustments	(83)	(144)		(451)	(208)	
Normalized capital expenditures	(750)	(590)		(2,514)	(2,352)	
Normalized tenant incentives and leasing commissions	(1,425)	(1,029)		(4,512)	(4,116)	
Adjusted Funds from Operations (AFFO)[1]	3,523	4,608	(24)%	17,248	20,005	(14)%
FFO/Unit[2]	$0.20	$0.22		$0.85	$0.92	
AFFO/Unit[2]	$0.12	$0.16		$0.59	$0.69	
Weighted average number of units (000s):[3]	29,088	29,114	– %	29,089	29,114	– %

(1) Non-GAAP financial measure. Refer to the non-standard measures section on page 35 of the MD&A for further information.
(2) Non-GAAP ratio. Refer to the non-standard measures section on page 35 of the MD&A 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.

ACFO Reconciliation

	Three months ended December 31			Year ended December 31		
($000s, except per unit amounts)	2022	2021	△%	2022	2021	△%
Cash flows from operations	4,394	3,927	12 %	11,936	14,881	(20)%
Distributions on Class B LP Units	1,290	1,935		7,740	7,176	
Actual payment of tenant incentives and direct leasing costs	2,060	1,491		8,779	6,130	
Changes in operating assets and liabilities	(1,596)	798		(2,288)	237	
Amortization of deferred financing fees	(294)	(397)		(1,268)	(1,363)	
Normalized capital expenditures	(750)	(590)		(2,514)	(2,352)	
Normalized tenant incentives and leasing commissions	(1,425)	(1,029)		(4,512)	(4,116)	
Adjusted Cash Flows from Operations (ACFO)[1]	3,679	6,135	(40)%	17,873	20,593	(13)%
ACFO/Unit[2]	$0.13	$0.21		$0.61	$0.71	
Weighted average number of units (000s):[3]	29,088	29,114	– %	29,089	29,114	– %

(1) Non-GAAP financial measure. Refer to the non-standard measures section on page 35 of the MD&A for further information.
(2) Non-GAAP ratio. Refer to the non-standard measures section on page 35 of the MD&A for further information.
(3) The diluted weighted average number of units includes Trust Units, Class B LP Units and convertible debentures.

Forward-looking Statements:

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

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