



MELCOR | REIT

ANNUAL REPORT 2020

2 0 2 0

MELCOR | REIT

Melcor REIT is an unincorporated, open-ended real estate investment trust. We own, acquire, manage and lease quality retail, office and industrial income-generating properties. Our portfolio is currently made up of interests in 39 properties representing approximately 3.21 million square feet of gross leasable area located in and around Edmonton, Calgary, Lethbridge, Grande Prairie and Red Deer, Alberta; Regina, Saskatchewan; and Kelowna, British Columbia.

Backed by Melcor Development's 97 year history, Melcor REIT was borne out of a proud tradition of real estate excellence in western Canada. Our growth potential is a true competitive advantage, with the right to acquire Melcor's pipeline of newly constructed, high quality retail, industrial and office projects. Subsequent to the initial acquisition, we have vended-in over 1 million sf from Melcor, and there is a further 4.7 million sf in current and future projects to be built over the next 5 to 15 years.

FACTS & DATA

39

ASSETS

\$74.6M

REVENUE

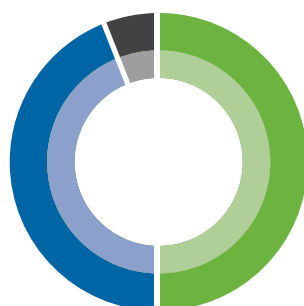
\$724.7M

ASSET FAIR VALUE

69%

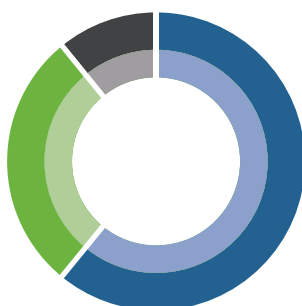
ACFO PAYOUT RATIO

GLA BY PROPERTY TYPE



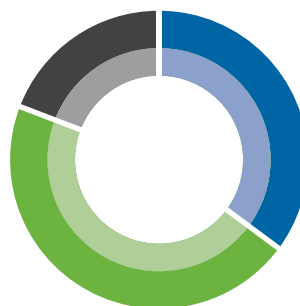
Office - 50%
Retail - 44%
Industrial - 6%

GLA BY REGION



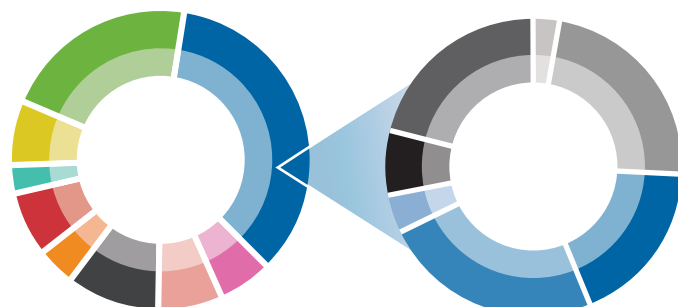
Northern Alberta - 61%
Southern Alberta - 28%
BC & SK - 11%

RENT BY TENANT PROFILE



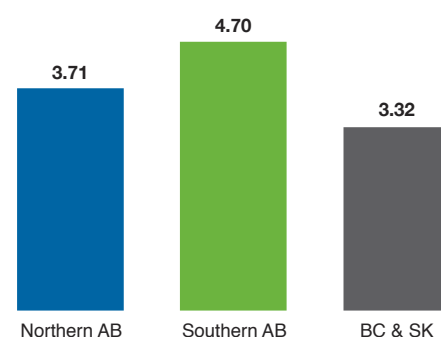
Local - 35%
National - 46%
Regional - 19%

RENT BY TENANT INDUSTRY

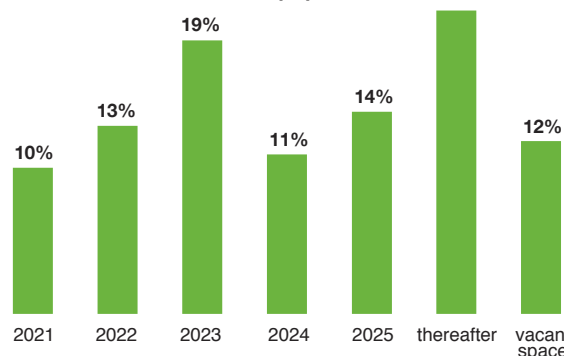


Finance - 6%
Oil & Gas - 3%
Government - 7%
Other - 7%
Hospitality - 10%
Professional - 21%
Industrial - 4%
Retail - 35%
Medical - 7%
Auto Service - 3%
Clothing - 23%
Grocer/Pharmacy - 18%
Home & Garden - 24%
Liquor/Cannabis - 4%
Personal Service - 7%
Specialty - 21%

WEIGHTED AVERAGE LEASE TERM REMAINING (YEARS)



GROSS LEASABLE AREA EXPIRING (%)



WHAT'S INSIDE

- 2 Message from the Chair
- 3 Message from the Chief Executive Officer
- 6 Properties Map
- 8 Environmental, Social Responsibility & Governance






Ralph Young

MESSAGE FROM THE CHAIR

The most overused statement regarding 2020 is that “it was a year like no other in our lifetime”; however, it reflects the reality for Melcor REIT and many other businesses around the world. COVID-19 presented a new, unanticipated reality. Given the circumstances facing the REIT, we are proud of the results which were achieved in 2020. We give credit to our management, our tenants, our financial partners, and our board for responding rapidly and appropriately to the unprecedented issues faced in 2020.

Management and the board remained focused on the interests of unitholders and other stakeholders as we responded to the dramatic challenges, which struck financial markets, businesses and the general public mid-March 2020. Financial markets collapsed and uncertainty reigned.

Melcor REIT responded quickly to preserve its financial strength by reducing distributions, deferring unit purchases under its NCIB, reducing non-essential expenditures and deferring acquisition activity. Equally important, management responded quickly to support our tenants by helping them understand government programs and apply on their behalf. Where necessary, we deferred lease payments and ensured tenant businesses remained viable by providing assistance where we were able to.

The REIT team transitioned to remote business operations in the space of a week, effectively managed tenant challenges, worked through new government programs, prudently monitored cash, liquidity and asset financings, supported human resource challenges, and provided effective communication to both tenants and investors. This is in no small part thanks to the leadership of our CEO, Darin Rayburn, and CFO, Naomi Stefura. The REIT team performed admirably and professionally through uncharted waters.

As a board, we heard our unitholders concerns over reduced unit value, reduced distributions and deferred Normal Course Issuer Bid activity. The board valued the feedback received and used its best judgment to ensure the long-term financial strength and sustainability of the trust. We are confident that decisions made were focused on the best interests of all unitholders and we have taken a number of steps to improve outcomes, including reinstating the NCIB and increasing our distribution by 17% for Q1-2021.

I extend the board's deep appreciation for the efforts of all who contributed to the REIT's success in 2020. While the impact of COVID-19, the long downturn in Alberta's economy and resulting changes to some real estate classes will continue to impact the REIT through 2021, we are confident that the REIT is well positioned for future success.





Darin Rayburn

LETTER FROM THE CEO

It is my privilege to report to you, our unitholders. It's hard to believe that it has been a whole year since the COVID-19 pandemic arrived with a bang. Last year, we wrote and rewrote our message to unitholders a number of times due to the speed of change and evolution of the global pandemic environment.

At this time last year, we were not only facing the first wave of COVID-19 in North America, but also experiencing the lowest oil prices in decades as a result of the OPEC+ price wars. The forced shutdown and operating restrictions put in place impacted the economy and our tenants in the spring and then again through the Christmas season. There were temporary and real layoffs. While the world around us was in a constant state of flux, we all had to learn to do things differently.

As the early COVID-19 situation was unfolding, we focused on taking care of our ecosystem – our tenants, suppliers, staff, and all stakeholders. Our tenants are also partners that we work with, restaurants we eat at, retail shops we support, consultants we rely on, companies our friends and families work for and service providers who support our communities. They

pay rent, and we support their business in the ways that we can. We made sure to continue to do this throughout the year wherever possible, including focused purchasing of gift cards to support a number of our local tenants.

The Melcor REIT team moved quickly into responding to needs with intentional actions to manage through the crisis. Our first focus was cash conservation to allow us to support our tenants as their businesses were impacted.

We immediately did the things that would shore up our cash position. We cut our distribution by almost half and took advantage of all deferrals available – mortgages, utilities, etc. We temporarily suspended our Normal Course Issuer Bid. We deferred all unnecessary capital spend and maintenance items planned for the year, not only to conserve cash, but to limit unnecessary activity to do our part to contain the spread. We were both applauded and criticized for the same decisions.

Throughout the year we continued to focus on leasing and our relationships with our existing tenants – the very heart of the Melcor REIT. Our tenant retention rate was 83% for the year and we leased 87,000 sf to new tenants. Between new leases and renewals we leased 56% more space based on Gross Leasable Area than we did in 2019 without significant negative impact to average rental rates.

For the REIT operations team, we focused on taking care of safety messaging and protocols to keep clients, employees and visitors safe. We worked with many of our tenants, helping apply for Canadian Emergency Commercial Rent Assistance program, and providing flexibility allowing them to move their business forward and navigate these times. Our team acted with conviction, resiliency, and with dedicated service to our tenants.



Through all the chaos, through all the concern and worry about what the future would end up looking like, we saw tremendous growth in our people. They stepped up, took on new challenges and helped out where necessary with bravery and commitment. Our tenants noticed and were appreciative.

Externally, our unit price followed general market volatility, but then seemed to get temporarily “stuck” instead of rebounding with the rest of the market. This again brought us under scrutiny.

No one could have predicted where 2020 would go, and on behalf of the board of Trustees and all Unitholders, we express our extreme gratitude and deep appreciation to the Melcor REIT team responsible for exceeding our expectations, building even stronger relationships with tenants, keeping COVID cases contained (the REIT received less than 10 notifications of possible infections across our portfolio), leasing space via Zoom and virtual tours, and proving that we could more than just survive a year like 2020.

ENVIRONMENTAL COMMITMENT, SOCIAL RESPONSIBILITY & GOVERNANCE (ESG)

The REIT is committed to corporate sustainability - in environmental practice, social responsibility, governance of our company and as stewards of the areas where we operate. Attaining best practice in all aspects of our business is our constant aspiration.

Our ESG practices are highlighted throughout this annual report and in our MD&A. What follows is a brief snapshot of those practices.

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, and enhance our ability to attract and retain tenants.

- Achieved ENERGY STAR certification in one of our assets in 2020. ENERGY STAR recognizes the top 25% most efficient office buildings in Canada.
- We reduced equivalent greenhouse gases by 32% between 2012 and 2020 at our benchmarked properties.
- All properties have LED lights, and 80% have motion-sensing lights.

SOCIAL RESPONSIBILITY - THE GOLDEN RULE

The REIT's asset and property manager, Melcor Developments Ltd. is committed to fostering a diverse, inclusive and safe work environment. Melcor places people at the heart of our strategy and one of three core values is to “empower and care for our exceptional team.” A diverse and inclusive team fosters more innovation, and better intentional collaboration and decision making with a greater scope of experiences and perspectives.

- Of the Melcor management team that oversees, leases and manages the REIT's portfolio, 44% are female and 27% are visible minorities.
- Melcor was recently named an honouree of the Report on Business's 2021 Women Lead Here.
- Half of the REIT's executive team is female.

EFFECTIVE GOVERNANCE

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

- The majority of our trustees (3 of 5) are independent.
- We appoint an independent lead trustee.
- 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.

OUTLOOK

The economic landscape has changed and will continue to do so. The traditional office may look different in the future. The flavour of the day in the news cycle seems to undulate between 'office is dead' and 'people can't wait to get back to work in the office'. While the future remains in flux, we continue to work with our tenants to determine their current and future needs. We are ready for the future.

Our portfolio is intentionally designed to be balanced across sectors and asset class in order to absorb unexpected economic shocks. While we didn't see COVID coming, we know with certainty that economies cycle and eventually unexpected, unforeseen economic events are inevitable. The sustainability of our portfolio relies on its resiliency.

Tenants in our retail developments are a mix of essential services such as national grocers, gas stations and pharmacies; and the personal service providers and restaurants that have been shut down or forced to operate differently through much of the past year.

Alberta ingenuity and entrepreneurship – along with a concerted focus on supporting our local businesses wherever possible – are key to successfully navigating this challenge. While COVID is new, economic shocks are not. We've battled before and we will continue to battle now.

With a diversified portfolio, proven management team and history of adapting through challenging times, we remain well positioned to manage through volatile and uncertain times.

THANK YOU

We are deeply grateful for the people and groups who contributed to our success in 2020. I thank our Trustees for your ongoing support, guidance and wisdom. It was particularly appreciated over the past 12 months.

We are also incredibly grateful to the Melcor Developments operations, leasing and administration/finance, information technology and human resources teams for their commitment, passion and dedication to the exceptional work they do every day to take care of our tenants and manage our properties. I am extremely humbled and exceptionally proud of our team's collective response to new challenges created by the onset of COVID-19.

To our tenants and clients, thank you for your business. We commit to work together to continue to respond to this crisis and find our way through so we can all move forward and get back to full business.

Finally I thank our unitholders for your ongoing support and trust in the REIT and our business. The road has been bumpy and the past year particularly difficult. We are an ecosystem that relies on one another and we strive to take actions that support our unitholders and tenants for the long term success of each and every one of us.

With gratitude,



Darin Rayburn



3.21M
OWNED
SQUARE
FEET

BRITISH
COLUMBIA

Grande Prairie



ALBERTA

Spruce Grove



Edmonton



Leduc



Red Deer



Airdrie



Kelowna



Calgary



Chestermere



Lethbridge



MELCOR | REIT

Our goal is to provide stable monthly cash distributions to unitholders by acquiring high quality properties and diversifying our portfolio.

SASKATCHEWAN

Regina



OFFICE BUILDINGS	LOCATION	GLA	OCC %
Crowfoot Building	Calgary	67,293	77
Kensington Road	Calgary	23,932	91
100 Street Place	Edmonton	44,294	88
10117 Jasper Avenue	Edmonton	132,373	43
Birks Building	Edmonton	35,106	84
Capilano Centre	Edmonton	45,487	65
Melton Building	Edmonton	114,612	79
Princeton Place	Edmonton	59,081	59
Select Building	Edmonton	23,432	100
Stanley Buildings	Edmonton	34,976	99
Sterling Centre	Edmonton	67,909	80
Trail Centre	Edmonton	77,296	66
Village at Blackmud Creek	Edmonton	48,335	98
Westcor Building	Edmonton	72,810	85
Westgate Centre	Edmonton	75,141	93
White Oaks	Edmonton	30,496	97
Kelowna Centre	Kelowna	72,076	94
Richter Street	Kelowna	28,978	100
LFS Building	Lethbridge	33,196	100
Melcor Centre	Lethbridge	449,862	95
Executive Terrace	Regina	41,959	77
Parliament Place	Regina	24,411	83
TOTAL		1,603,054	83

RETAIL BUILDINGS	LOCATION	GLA	OCC %
Chestermere Station	Chestermere	84,612	96
Kingsview Market	Airdrie	99,987	100
Staples Centre	Calgary	56,084	100
The District	Calgary	23,238	100
Coast Home Centre	Edmonton	59,854	96
Leduc Common	Leduc	283,149	89
Village at Blackmud Creek	Edmonton	9,046	74
West Henday Promenade	Edmonton	77,970	100
Westgrove Common	Spruce Grove	29,384	100
White Oaks	Edmonton	127,824	88
Melcor Crossing	Grande Prairie	283,219	88
Liberty Crossing	Red Deer	64,240	64
Market Mall	Regina	42,912	79
Towers Mall	Regina	114,170	100
University Park	Regina	41,464	76
TOTAL		1,397,153	91

INDUSTRIAL BUILDINGS	LOCATION	GLA	OCC %
Telford	Leduc	143,118	100
TKE Building	Edmonton	15,968	100
Lethbridge Industrial	Lethbridge	49,005	100
TOTAL		208,091	100

LAND LEASE COMMUNITY	LOCATION	GLA	OCC %
Watergrove	Calgary	308	100

ENVIRONMENTAL, SOCIAL RESPONSIBILITY & GOVERNANCE

ENVIRONMENTAL COMMITMENT

Examples of our commitment to environmental best practices include:

- All properties have LED lights and 80% of our buildings have motion-sensing lights that turn off when no one is present.
- We have active recycling programs in all buildings
- We reduced equivalent greenhouse gases by 32% from 2012 to 2020 (based on 12 properties managed by specialists).
- The Village at Blackmud Creek achieved ENERGY STAR certification again in early 2021, recognizing the top 25% most efficient office buildings in Canada.

SOCIAL RESPONSIBILITY - THE GOLDEN RULE

- We demonstrate social responsibility through our relationships with tenants and in the communities where we operate. Our commitment to being the landlord of choice is much more than a slogan: it is lived by every team member. Anecdotal responses to our approach to communicating and working with tenants on COVID matters were remarkably positive.
- The REIT's asset and property manager, Melcor Developments Ltd. is committed to fostering a diverse, inclusive and safe work environment. Melcor places people at the heart of our strategy and one of three core values is to "empower and care for our exceptional team."
- Many of our office properties are enhanced by public art, usually external, and entrances have seasonal floral arrangements, beautifying the street.

Diversity & Inclusion

- Of the Melcor management team that oversees, leases and manages the REIT's portfolio, 44% are female and 27% are visible minorities.
- 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.

EFFECTIVE GOVERNANCE

- We are committed to effective corporate governance practices as a core component of our operating philosophy.
- The majority of our trustees (3 of 5) are independent.
- A lead trustee is appointed when the chair is related.
- In 2021, we formally established an Independent Committee to examine the agreements between Melcor Developments Ltd. and the REIT and other matters as directed by the Board. The Independent Committee will be chaired by independent and Lead Trustee Larry Pollock.
- All arrangements with Melcor require approval by a majority of our independent trustees, providing independent oversight on all transactions to represent the interests of minority unitholders.
- The audit and compensation and governance committees are both comprised of 100% independent trustees.
- One-third of the REIT's independent trustees is female.
- Half of the REIT's executive team is female.



ANNUAL GENERAL MEETING 2020

Please join our virtual annual general meeting via webcast.

Thursday May 20, 2021 9:30 AM MT

<https://web.lumiagm.com/490738864>

Password: melcor2021 (case sensitive)

UPCOMING EARNINGS DATES

Q1 – May 4, 2021
Q2 – July 27, 2021

Q3 – November 2, 2021
Q4 – March 3, 2022

CORPORATE & UNITHOLDER INFORMATION

EXCHANGE LISTING

Toronto Stock Exchange:

REIT Units: MR.UN

5.25% Convertible Debenture: MR.DB.A

5.10% Convertible Debenture: MR.DB.B

LEGAL COUNSEL

Bryan & Company LLP

TAX INFORMATION

Regular income – 49.8%

Capital Gain – 0.4%

Return of capital – 49.8%

UNITHOLDER SERVICES

For unitholder services including distribution information, contact:

AST Trust Company (Canada)

PO Box 700 Station B

Montreal, QC H3B 3K3

P. 1.800.387.0825

F. 1.800.781.3111

E. inquiries@astfinancial.com

W. www.astfinancial.com/ca

AUDITORS

PricewaterhouseCoopers LLP

INVESTOR RELATIONS

Nicole Forsythe

P. 1.855.673.6937 x4707

E. IR@MelcorREIT.ca

CUSTOMER SERVICE

For tenant services, please contact:

P. 1.866.MELCOR1

W. Care.Melcor.ca

E. service@care.melcor.ca



MELCOR | REIT

Suite 900, 10310 Jasper Avenue
Edmonton, AB T5J 1Y8
780.423.6931
1.855.673.6931 x4707
IR@MelcorREIT.ca
www.MelcorREIT.ca

