Management's Discussion & Analysis

March 4, 2021

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, 2020. 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 2019 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 4, 2021. Disclosure contained in this MD&A is current to March 4, 2021, unless otherwise indicated.

Regulatory Filings

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

Non-standard Measures

We refer to terms and measures which are not specifically defined in the CPA Canada Handbook and do not have any standardized meaning prescribed by IFRS. These measures include funds from operations (FFO), adjusted funds from operations (AFFO), adjusted cash flow from operations (ACFO) and net operating income (NOI), which are key measures of performance used by real estate businesses. We believe that these measures are important in evaluating the REIT's operating performance, financial risk, economic performance, and cash flows. These non-standard measures may not be comparable to similar measures presented by other companies and real estate investment trusts and should not be used as a substitute for performance measures prepared in accordance with IFRS.

Non-standard measures included in this MD&A are defined in the Non-standard Measures section.

Caution Regarding Forward-looking Statements

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

Forward-looking statements are disclosures regarding possible events, conditions, or results of operations that are based on assumptions about future economic conditions or courses of action and include future-oriented financial information.

This MD&A and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent the REIT's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Forward-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2021 and beyond, future leasing, acquisition and financing plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook for our operations.

By their nature, forward-looking statements require assumptions and involve risks and uncertainties related to the business and general economic environment, many beyond our control. There is significant risk that the predictions, forecasts, valuations, conclusions or projections we make will not prove to be accurate and that our actual results will be materially different from targets, expectations, estimates or intentions expressed in forward-looking statements. We also caution readers that the ongoing COVID-19 pandemic has resulted in both new and increased risk, creating significant uncertainty as to the outlook for the REIT. We caution readers of this document not to place undue reliance on forward-looking statements. Assumptions about the performance of the Canadian economy and how this performance will affect the REIT's business are material factors we consider in determining our forward-looking statements. For additional information regarding material risks and assumptions, please see the discussion under Business Environment and Risks.

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

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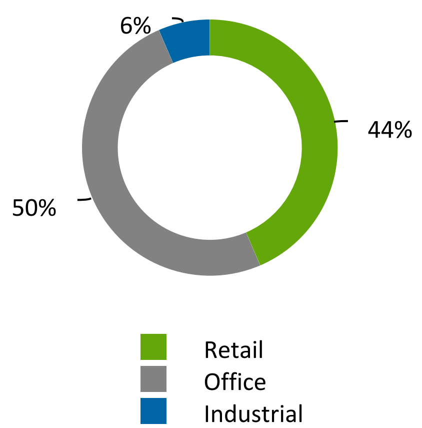
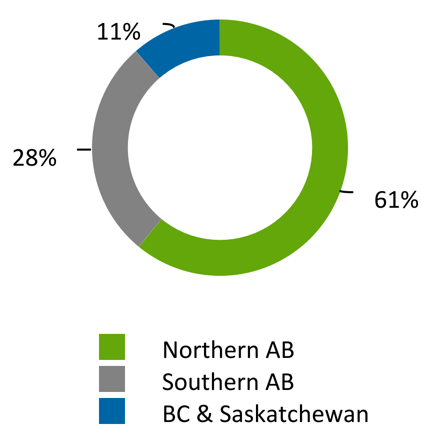
Our Business

The REIT has an established and diversified portfolio of 39 income-producing office, retail and industrial properties representing 3.21 million sf (square feet) in gross leasable area (GLA) in western Canada. As at December 31, 2020 our portfolio is comprised and characterized as follows:

GLA by Property Type



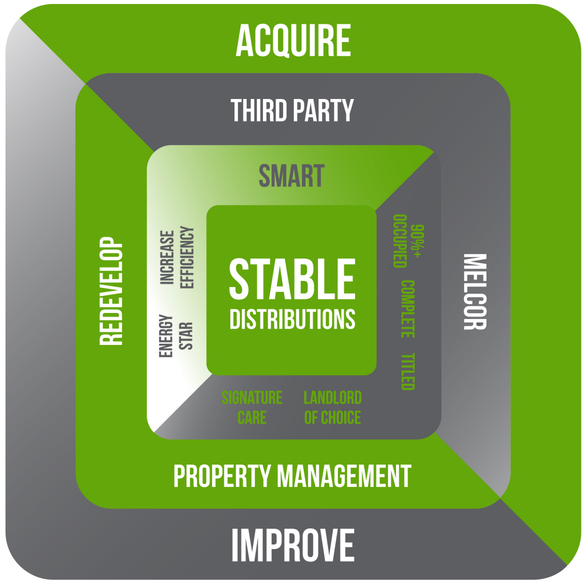
GLA by Region



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 IPO. Melcor, a real estate company founded in 1923, has a rich history of growth and performance in the real estate development and asset management.

Melcor holds an approximate 55.3% effective interest in the REIT through ownership of all Class B LP units of Melcor REIT Limited Partnership (the partnership) through an affiliate and a corresponding number of special voting units of the REIT. The Class B LP units are economically equivalent to, and are exchangeable for, trust units. Melcor is the ultimate controlling party.

Our strategy: **growing and improving our asset base**, and objective: **providing stable monthly cash distributions to unitholders**, were interrupted by the events of 2020. Alberta, where the majority of our properties are located, faced two lengthy lockdowns and major disruptions to normal business activity due to COVID-19 in both the spring and fall/early winter. These events were particularly detrimental to the non-essential retail/neighbourhood service tenants who were closed or forced to operate under different parameters and restrictions throughout much of the year.



Acquire

Our acquisition strategy was interrupted by COVID-19, under which we determined that conserving cash was our best initial action under the circumstances. We plan to resume this aspect of our growth strategy as future conditions allow.

Our acquisition strategy is focused on:

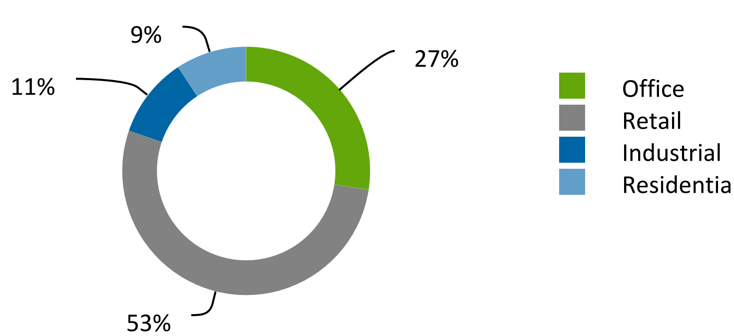
- Diversifying our property portfolio,
- Increasing penetration in existing geographic markets to exploit competitive advantage, and
- Expanding to adjacent geographic markets.

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 asset pipeline is unique to the REIT. Based on projects currently being developed or planned to begin in the near-term, we expect this current acquisition pipeline to yield 5.62 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 997,414 sf of owned and managed GLA and an additional 66,204 sf of GLA under development. The following chart represents future development plans that have not broken ground. Development plans are updated frequently to match market demand.

Melcor's Planned Development by GLA



Since our IPO in 2013, we have acquired over 1.00 million sf of GLA via our proprietary pipeline. We continue to actively monitor the development pipeline; however, we did not acquire property from Melcor in the past two years.

- ***Acquiring accretive income-producing properties***: We actively seek strategic third party property acquisitions that fit our SMART investment criteria: properties that have a good Story, are in the right Market, Accretive to ACFO per unit, at the Right price and in our Target locations. Potential acquisitions include properties where we identify the opportunity to increase value through expansion, redevelopment or improved property management.

  In 2020, we did not complete any third-party acquisitions compared with two acquisitions in 2019:

  - A 56,084 sf single tenant retail building with warehouse space on a 3 acre site in Calgary, Alberta (Staples Centre) for $12.45 million.
  - A 283,235 sf multi-building open retail power centre on a 33.3 acre site in Grande Prairie, Alberta (Melcor Crossing) for $54.80 million.

  These acquisitions demonstrate the continued execution of our strategy to grow our portfolio in our own backyard as well as expand to adjacent markets. Melcor Crossing was our first investment in the Grande Prairie market.

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 being the Landlord of Choice by providing consistent, high quality service to our clients, thus ensuring that our occupancy rates remain high and that our space is leased at attractive rates.

Efficient property management optimizes operating costs, occupancy and rental rates. Our hands-on, on-site building management team identifies issues early on for prompt resolution, and with continuous logging and monitoring of all maintenance activity, we are able to make informed capital investment decisions to sustain long-term operating margins.

Our property management practices are designed to improve operating efficiency and reduce cost while at the same time increasing client satisfaction and thus retention rates. We enjoy strong, long-term relationships with our clients, some of whom have been with Melcor for over 25 years.

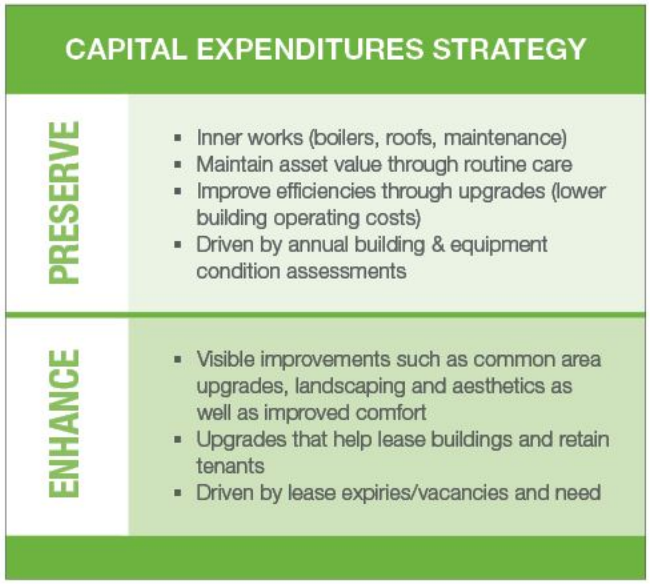
Our Signature Customer Care program manages client service requests via telephone, email or website and notifies the appropriate building team to take action. We are proud of our track record of responding to over 98% of service requests within 30 minutes during business hours in 2020.

This high level of satisfaction contributes to other key metrics, such as our retention rate, which was a healthy 82.8% in 2020.

We continue to be proactive with leasing strategies designed to maintain occupancy at or above our target.

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.



Our buildings undergo annual assessments to identify preventative maintenance and capital investment requirements, and we continuously monitor and log all equipment and maintenance activity. Many of our continuous improvement initiatives focus on sustainability and energy reduction strategies to ensure our buildings are green. As we upgrade and replace equipment, we do so with technology that promotes energy efficiency. We also engage specialists to monitor and analyze our energy usage to identify ways it can be improved.

Fountain Tire Place at The Village at Blackmud Creek was awarded the ENERGY STAR Certification in early 2020. This is our first building to achieve this certification, a recognition of the most energy efficient commercial buildings by Natural Resources Canada.

In 2020, we deferred many non-essential projects to minimize non-essential activity at our properties and improve near-term liquidity. Certain capital projects deemed essential proceeded as necessary. We continue to monitor major property components to ensure that the maintenance deferred in 2020 has no impact to ongoing property operations.

Capital Recycling

We continually review our asset portfolio to identify opportunities to recycle capital. Our capital recycling strategy focuses on pruning non-core assets with a view to mitigate against market and tenancy exposures and maximize return on investment. No opportunities to recycle capital were identified in 2020.

In $000s, except as noted

Key Metrics & 2020 Accomplishments

Metric	Target	2020
Debt/gross book value excluding debentures	50-55%	50 %
Debt/gross book value including debentures	55-60%	59 %
Tenant retention	75 %	82.8 %
Occupancy	90%+	87.6 %
Portfolio diversification		
Retail	40 %	43.5 %
Office	40 %	50.0 %
Industrial	20 %	6.5 %
Weighted average base rent (by sf)		
Retail	$18.50+	$19.95
Office	$14.00+	$13.82
Industrial	$10.00+	$14.12
Customer Care On-time Response	95%+	98 %

Corporate Sustainability

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

Environmental Commitment

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

Examples of our commitment to environmental best practices include:

- All properties have LED lights
- 80% of our buildings have motion-sensing lights that turn off when no one is present
- We have active recycling programs in all buildings
- We engage specialists to monitor and analyze our energy usage and identify potential improvements. Of 12 properties benchmarked from 2012 - 2020 we realized:
    - reduced electricity consumption of 21%
    - decrease in natural gas consumption of 4%
    - reduced equivalent greenhouse gases by 32%
- One building achieved ENERGY STAR certification in early 2020, recognizing the top 25% most efficient office buildings in Canada. We are tracking other office buildings in our portfolio for this certification.

Social Responsibility - 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, as demonstrated by the results of our most recent tenant survey. We surveyed 16 office buildings in November 2019 and both our property management and building operations teams achieved a tenant approval rating of 92% based on over 400 responses. While no surveys were completed in 2020, 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."

Melcor's human capital strategy emphasizes health and wellness. The benefit available to employees for psychological services was doubled in 2020. Encouraging managers to check in on the mental and emotional well-being of staff was a top-down focus throughout the year and into 2021. While less frequent in 2020, Melcor continued its Food for Thought lunch and learn sessions virtually to encourage learning on a variety of topics that support health and well-being, including a session on helping young children navigate COVID and our new reality.

While we were unable to continue many of our social traditions throughout 2020, we found new ways of connecting and held our first whole company service awards ceremony where we recognized 17 employees for 235 years of knowledge and experience with Melcor. Our focus on creating and sustaining a positive, empowering work environment creates an engaged and dedicated workforce with 22 employees having served the company for 25+ years.

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.

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. 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 (3 of 5) are independent
- We appoint a lead trustee as the chair is Melcor's nominee and thus a related party
- In 2021, we formally established an Independent Committee to examine the agreements between Melcor Developments Ltd. and the REIT and other matters as directed by the Board. The Independent Committee will be chaired by independent and Lead Trustee Larry Pollock.
- In 2020, we reviewed our practices and the steps taken in our response to COVID-19 and its potential impact on the REIT. We concluded that our duty of care with respect to protecting the assets, earnings and distributions of the REIT was handled in a responsible manner. We remain focused on securing cash flow sustainability until we have greater certainty on COVID-19's impact on our business.
- All arrangements with Melcor require approval by a majority of our independent trustees, providing independent oversight on all transactions to represent the interests of minority unitholders
- The audit and compensation and governance committees are both comprised of 100% independent trustees.
- One-third of the REIT's independent trustees is female
- Half of the REIT's executive team is female

SIGNIFICANT EVENT - COVID-19

The COVID-19 global pandemic arrived in western Canada in March 2020 and the federal and provincial governments responded with a series of emergency measures to slow the spread of the virus and ensure that our medical system did not become overwhelmed. The initial lock-down, including the mandatory closure of all non-essential businesses from March until June 2020, had a material impact on many of our tenants. A second lock-down of non-essential businesses occurred from November 2020 until February 2021.

The long-term impact of COVID-19 related economic stressors remains to be seen. It is difficult to estimate the future impact to the REIT's financial performance, and because of this future results could be materially different from current estimates.

Melcor, as the REIT's property manager, responded quickly and implemented a variety of measures to provide safe and clean work environments and keep our tenants and visitors to our properties safe while doing our part to slow the spread.

The REIT worked with tenants on a case by case basis, participating in the Canada Emergency Commercial Rent Assistance (CECRA) program and making arrangements for lease deferrals where appropriate, depending on the tenant's financial need and potential access to government relief programs. These arrangements demonstrate our continued solidarity and partnership with our tenants to provide them with the best opportunity to endure the pandemic and be successful in the long-term. We are all in this together. We see ourselves as partners with our tenants and our main objective is to help each other survive and thrive.

The CECRA program was succeeded by the new Canada Emergency Rent Subsidy (CERS) in October 2020 which provides rent support directly to tenants. Under the CERS program, qualifying businesses are eligible for up to a 65% rent subsidy based on their percentage revenue decline. The program, unlike its predecessor, provides relief on a sliding scale, providing access to much needed benefits for many of our tenants. The CERS program also provides an additional 25% 'lockdown support' to eligible businesses required to close or restrict business activities due to public health orders. The program runs until June 2021.

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

Operations Update

We undertook a series of measures to conserve cash and place the REIT in a position to support our tenants in the early days of the COVID-19 pandemic. These measures included:

- Reduced monthly distribution to $0.03 per unit from April to December 2020 (previously $0.05625). We paid out a total of $0.44 per unit in 2020 compared to $0.68 in 2019. On January 14, 2021, the REIT announced a 17% increase in its distribution payable for the first quarter of 2021 based on 2020 results and outlook for 2021.
- Suspended buy-backs under our Normal Course Issuer Bid (NCIB) and cancelled our Automatic Share Purchase Plan on May 15, 2020.
- Deferred discretionary capital spending of approximately $1.30 million planned for 2020. In addition to improved liquidity, this reduced non-essential activity and traffic to our properties. Strategic asset enhancement and preservation projects remain a cornerstone of our long-term strategy and will resume priority based on the short- and long-term needs of our assets.
- Redistributing budgeted expenditures to better align with evolving priorities. We continue to monitor our maintenance programs as tenants resume operations to provide best-in-class service while ensuring efficiency and cost effectiveness.
- Deferred sales tax, property tax and utility payments where available. All deferred amounts were subsequently repaid in 2020.
- Deferred mortgage payments where available. Deferrals have now ended and regular payments have resumed.
- We were able to take advantage of the Canada Emergency Wage Subsidy Program (CEWS), through our manager, Melcor Developments, which allowed the REIT to top up the salaries of of buildings operation staff that had been part of the company-wide salary adjustments declared at the beginning of COVID.

Collections & Bad Debt Update

As a result of COVID-19 and the direct impact on many of our tenants, we have and continue to proactively engage with our tenants to provide temporary relief through rent deferral agreements. The amount and duration of relief provided is dependent on the tenant's situation and includes full or partial deferral of lease payments for periods of one to four months or on a month to month basis. Deferred amounts remain owing and are repayable over a fixed term. As of December 31, we had collected 99% of fourth quarter rent, 95% of third quarter rent and 84% of second quarter rent, with $2.74 million in outstanding arrears, of which $0.44 million has been deferred and a further $0.80 million has been provided for as bad debt where collectibility is doubtful. The majority of our tenants are working cooperatively with us in finding mutually acceptable arrangements for repayment of arrears.

The following table outlines our rent collections in the second, third and fourth quarters by asset class.

Collections by Asset Class Q2, Q3 & Q4 2020 (% of Total Billed Rent)	Q2-2020	Q3-2020	Q4-2020	Total	Office	Retail	Industrial	Other
Tenant collected	80	92	99	**91**	93	89	92	100
Government collected	4	3	—	**2**	2	3	2	—
Total collected	**84**	**95**	**99**	**93**	**95**	**92**	**94**	**100**
Provisions and write-offs for bad debts	11	4	—	**4**	3	6	4	—
Deferred receivables	2	—	—	**1**	—	1	—	—
Uncollected	3	1	1	**2**	2	1	2	—
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

The REIT expects full collection of deferred and uncollected amounts. To date 99% of January 2021 and 92% of February 2021 billed rent had been collected plus an additional $0.45 million in payments related to prior periods.

The federal government, in partnership with the provinces and territories, created the CECRA program for small businesses that qualify for the months of April through September 2020. Under the program, the government covers 50% of rent payable by eligible small business tenants, while the landlord forgives at least 25% of rent covered by the application, with the tenant paying the balance.

We completed CECRA applications on behalf of 79 tenants representing approximately 8% of the REIT's billed rent for the program period at a net cost of $0.71 million for the twelve-months ended December 31, 2020.

During 2020 we recorded $1.04 million in bad debt expense unrelated to the CECRA program as our expected credit losses have increased in the current environment.

The following table outlines the bad debts expense recorded for 2020.

Bad Debt Expenses and Write-offs ($000s)	**Year ended December 31, 2020**			**Year ended December 31, 2019**	
	CECRA Write-offs	**Net Other Bad Debts Expense**	**Total Bad Debts Expense**	**Net Other Bad Debts Expense**	**Total Bad Debts Expense**
Retail	**416**	**557**	**973**	33	33
Office	**252**	**484**	**736**	165	165
Industrial	**38**	**—**	**38**	—	—
Other	**—**	**—**	**—**	1	1
Total	**706**	**1,041**	**1,747**	199	199

The following table illustrates our outstanding billed receivables (excluding deferred amounts), deferrals and allowances as at December 31, 2020 and December 31, 2019 by asset class. Accrued and other receivables of $0.83 million (2019 - $1.15 million) are not reflected in the figures below.

Tenant Receivables and Provisions ($000s)	**December 31, 2020**			December 31, 2019	
	Tenant Billed Receivables	**Deferred Tenant Receivables**	**Allowance for Doubtful Accounts**	Tenant Billed Receivables	Allowance for Doubtful Accounts
Retail	**1,476**	**376**	**(499)**	280	(59)
Office	**774**	**63**	**(303)**	390	(103)
Industrial	**39**	**—**	**—**	10	—
Other	**8**	**—**	**—**	—	—
Total	**2,297**	**439**	**(802)**	680	(162)

In addition to deferral arrangements, the REIT has entered into lease amendments with certain tenants to provide near term rent relief. These arrangements underscore our continued partnership with our tenants.

We worked diligently with our tenants throughout 2020 and believe that the strong relationships that we continually build with them are a key factor in our strong rental collection rates throughout this challenging period. We expect rent collections to remain stable; however, we anticipate tenant delinquencies may continue to grow due to the lingering impacts of COVID-19.

Valuation Update

Fair value losses of 8% or $62.75 million in 2020 are the result of a full revaluation of our portfolio by our external valuation professionals in Q2-2020. COVID negatively impacted stabilized NOI and projected cash flow and triggered a 25-50 bps increase in capitalization rates and discount rates. The revaluation resulted in write-downs to approximately 89% of the total portfolio with individual losses ranging from 1% to 17%. A breakdown of the losses recorded by asset class in 2020 is as follows:

Fair Value Losses by Asset Class ($000s)			
		Year Ended December 31, 2020	
Retail		(29,191)	(7)%
Office		(28,092)	(10)%
Industrial		(5,419)	(13)%
Residential		(46)	— %
Total	**$**	**(62,748)**	**(8)%**

Financing & Liquidity

The financing environment, including commercial lending, has been significantly impacted by the effects of COVID-19 and various government measures undertaken. While conditions have improved since the height of the pandemic, lenders remain cautious, and conditions remain uncertain as to the near and long-term impacts of the pandemic on real estate fundamentals. The REIT continues to focus on cash conservation in order to bolster near term liquidity. Total liquidity (cash and line availability) was $28.74 million as at December 31, 2020 (December 31, 2019 - $14.16 million).

NCIB

As described above, the board suspended buy-backs under our NCIB and cancelled our Automatic Share Purchase Plan (ASPP) to conserve cash at the height of the first wave of COVID-19. The board has determined that the NCIB will be reactivated when our trading window opens again. We intend to renew the NCIB at its expiration at the end of March.

Independent Committee

In January 2021, The board 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.

In 2020, we reviewed our practices and the steps taken in our response to COVID-19 and its potential impact on the REIT. We concluded that our duty of care with respect to protecting the assets, earnings and distributions of the REIT was handled in a responsible manner. We remain focused on securing sustainability until we have greater certainty on COVID-19's impact on our business.

Outlook

Even in this more stable environment, it is not possible to accurately predict the extent and duration of the impact of COVID-19 on our future results. Please refer to the discussion under the Outlook section for more information.

2020 Highlights & Key Performance Indicators

Financial Highlights

	Three-months ended December 31			Year ended December 31		
($000s)	**2020**	**2019**	△%	**2020**	**2019**	△%
Non-Standard KPIs						
Net operating income (NOI)	**12,186**	11,446	6 %	**46,456**	45,300	3 %
Same-asset NOI	**10,975**	10,703	3 %	**41,705**	44,193	(6)%
Funds from Operations (FFO)	**6,590**	6,002	10 %	**25,250**	25,581	(1)%
Adjusted Funds from Operations (AFFO)	**5,144**	4,232	22 %	**18,127**	18,485	(2)%
Adjusted Cash Flows from Operations (ACFO)(5)	**5,283**	4,315	22 %	**18,582**	18,610	— %
Rental revenue	**18,742**	18,273	3 %	**74,572**	71,159	5 %
Income before fair value adjustment and taxes	**4,248**	2,479	71 %	**14,396**	11,845	22 %
Fair value adjustment on investment properties(1)	**(2,917)**	(1,364)	nm	**(62,748)**	(1,622)	nm
Cash flow from operations	**2,832**	2,467	15 %	**13,786**	9,309	48 %
Distributions to unitholders	**1,174**	2,216	(47)%	**5,739**	8,882	(35)%
Distributions(2)	**$0.09**	$0.17		**$0.44**	$0.68	
Per Unit Metrics						
Net (loss)/income						
Basic	**($1.20)**	($0.40)		**$0.44**	($0.04)	
Diluted	**($1.20)**	($0.40)		**($1.38)**	($0.04)	
Weighted average number of units for net income/(loss) ($000s):(3)						
Basic	**13,050**	13,137	(1)%	**13,074**	13,162	(1)%
Diluted	**13,050**	13,137	(1)%	**29,200**	13,162	122 %
FFO						
Basic	**$0.23**	$0.21		**$0.86**	$0.91	
Diluted	**$0.21**	$0.21		**$0.83**	$0.89	
Payout ratio	**40%**	81%		**51%**	74%	
AFFO						
Basic	**$0.18**	$0.15		**$0.62**	$0.65	
Payout ratio	**51%**	114%		**71%**	103%	
ACFO(5)						
Basic	**$0.18**	$0.15		**$0.64**	$0.66	
Payout ratio	**50%**	112%		**69%**	102%	
Weighted average number of units for FFO, AFFO & ACFO (000s):(4)						
Basic	**29,176**	28,703	2 %	**29,200**	28,226	3 %
Diluted	**36,344**	36,640	(1)%	**36,368**	33,763	8 %

1. *The abbreviation nm is shorthand for not meaningful and is used through this MD&A where appropriate.*
2. *Distributions for the current period have been paid out at a rate of $0.05625 per unit for the months of January-March and $0.03 per unit for the months of April-December. Distributions for the comparative periods have been paid out at a rate of $0.05625 per unit per month.*
3. *For the purposes of calculating per unit net income the basic weighted average number of units includes Trust Units and the diluted weighted average number of units includes Class B LP Units and convertible debentures, to the extent that their impact is dilutive.*
4. *For the purposes of calculating per unit FFO, AFFO and ACFO the basic weighted average number of units includes Trust Units and Class B LP Units.*
5. *In Q4-2019 we amended our definition of amortization of deferred financing fees to exclude accretion on convertible debenture. Amortization of deferred financing fees is an adjusting item in the calculation of ACFO. This change has been applied retroactively.*

	31-Dec-20	31-Dec-19	△%
Total assets ($000s)	724,658	783,534	(8)%
Equity ($000s)[(1)]	289,055	289,873	— %
Debt ($000s)[(2)]	449,658	454,013	(1)%
Weighted average interest rate on debt	3.68%	3.78%	(3)%
Debt to GBV, excluding convertible debentures (maximum threshold - 60%)	50%	50%	(1)%
Debt to GBV (maximum threshold - 65%)	59%	59%	(1)%
Finance costs coverage ratio[(3)]	2.34	2.45	(4)%
Debt service coverage ratio[(4)]	2.53	2.26	12 %

1. *Calculated as the sum of trust units and Class B LP Units at their book value. In accordance with IFRS the Class B LP Units are presented as a financial liability in the consolidated financial statements.*
2. *Calculated as the sum of total amount drawn on revolving credit facility, mortgages payable, Class C LP Units, excluding unamortized fair value adjustment on Class C LP Units and convertible debentures, excluding unamortized discount and transaction costs.*
3. *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 44 for further discussion and analysis.*
4. *Calculated as FFO; divided by sum of contractual principal repayments on mortgages payable and distributions of Class C LP Units, excluding amortization of fair value adjustment on Class C LP Units. This metric is not calculated for purposes of covenant compliance on any of our debt facilities. Please refer to page 44 for further discussion and analysis.*

Operational Highlights

	31-Dec-20	31-Dec-19	△%
Number of properties	39	39	— %
Gross leasable area (GLA) (sf)	3,208,298	3,208,950	— %
Occupancy (weighted by GLA)	87.6%	88.0 %	— %
Retention (weighted by GLA)	82.8%	59.6 %	39 %
Weighted average remaining lease term (years)	3.96	4.37	(9)%
Weighted average base rent (per sf)	$16.67	$16.79	(1)%

2020 Highlights:

We are pleased with the performance of our portfolio throughout the challenges of 2020, where the COVID-19 pandemic complicated our already challenged markets. We remain proactive in renewing existing tenants and achieved a healthy retention rate of 82.8% for the year. In spite of the challenging market, interest in new leasing continued and we leased 87,189 sf to new tenants. Occupancy remained stable at 87.6%.

As described in the Significant Event - COVID-19 section of this MD&A, COVID-19 had significant impacts on 2020 results as follows:

- Our portfolio was revalued, resulting in fair value losses of $62.75 million.
- We recorded bad debt expense of $1.04 million and forgave $0.71 million in rent on a net basis related to the CECRA program.
- We recognized $53.05 million in fair value gains on the valuation of our Class B LP Units due to the 41% decrease in unit value compared to December 31, 2019.

FINANCIAL HIGHLIGHTS

- Third party acquisitions completed in 2019 contributed to portfolio growth of 12% based on sf, and to revenue growth of 3% in the quarter and 5% for the year. As a result of these acquisitions, NOI also had growth of 6% for the quarter and 3% for the year. The growth in our portfolio was offset by the negative impacts of COVID-19 described above and lower same-asset revenue on account of lower lease rates and higher average vacancy.
- Net income in the current and comparative periods is significantly impacted by fair value adjustments on investment properties due to changes in NOI/capitalization rates and by non-cash fair value adjustments on Class B LP Units due to changes in the REIT's unit price. Management believes funds from operations (FFO) is a better reflection of our

true operating performance. FFO was $25.25 million or $0.86 per unit (basic), down 1% from 2019 as a direct result of lower same-asset NOI.

- Adjusted cash from operations (ACFO) was $18.58 million or $0.64 per unit (2019 - $18.61 million or $0.66 per unit). Management believes that ACFO best reflects our cash position and therefore our ability to pay distributions. The REIT reduced its monthly distribution from April - December 2020 in anticipation of lower ACFO. We subsequently increased the distributions set for Q1-2021 by 17% to $0.035 per unit per month.
- As at December 31, 2020 we had $3.74 million in cash and $25.00 million in additional capacity under our revolving credit facility.

OPERATING HIGHLIGHTS

- We continued to execute on our proactive leasing strategy to both retain existing and attract new tenants. We completed lease renewals representing 258,661 sf (including holdovers) for a retention rate of 82.8% at December 31, 2020. New leasing has been steady across the portfolio with 87,189 sf in new deals commencing in 2020 and an additional 68,438 sf in committed leasing for future occupancy.
- Same-asset NOI was up 3% in the quarter due to timing of operating costs as well as lower non-recoverable costs. Full year same-asset NOI was down 6% over 2019 due to the drag from the large tenant that vacated a downtown Edmonton office building on October 1, 2019, provisions for bad debts and write-offs related to the CECRA program as well as charges related to lease restructuring.

CREATING UNITHOLDER VALUE

- In 2020 we paid monthly distributions of $0.05625 per trust unit for the months of January to March and $0.03 per trust unit for the months of April to December for a FFO payout ratio of 51% (2019 - 74%) and an ACFO payout ratio of 69% (2019 - 102%).
- On April 1, 2020 we commenced a new NCIB. We are entitled to purchase up to 655,792 trust units for cancellation, representing approximately 5% of the REIT's issued and outstanding trust units. The maximum daily purchase limit is 3,207 units, purchased at market price. Under this NCIB, we purchased 59,526 units for $0.21 million at a weighted average cost of $3.50 per unit or 36% of book value. Including units purchased under the prior NCIB, we purchased a total of 82,790 units for $0.34 million in 2020. The NCIB ends on March 31, 2021.
- We suspended purchases under the NCIB and cancelled our ASPP on May 15, 2020 as part of our cash conservation program (re: COVID-19). We do intend to continue purchases under the NCIB when our current trading blackout is lifted. We also intend to apply for a new NCIB to continue the program.

SUBSEQUENT EVENTS

- On January 14, 2021 we declared a distribution of $0.035 per trust unit for the months of January, February and March 2021. The distribution represents a 17% increase in the REIT's distribution in response to 2020 results and our operating and cash flow outlook for 2021.
- The REIT's Board announced it had formally established an Independent Committee to examine and recommend regular renewals and/or amendments to 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.

Consolidated Revenue & Net Operating Income

	Year ended December 31		
($000s)	**2020**	**2019**	△%
Base rent	**48,433**	45,384	7 %
Recoveries	**26,702**	26,380	1 %
Other	**2,561**	2,308	11 %
Amortization of tenant incentives	**(3,779)**	(3,541)	7 %
Straight-line rent adjustments	**655**	628	4 %
Rental revenue	**74,572**	71,159	5 %
Operating expenses	**15,372**	13,320	15 %
Utilities and property taxes	**15,868**	15,452	3 %
Direct operating expenses	**31,240**	28,772	9 %
Net rental income	**43,332**	42,387	2 %
NOI	**46,456**	45,300	3 %
Same-asset NOI	**41,705**	44,193	(6)%
Operating margin	**58 %**	60 %	(3)%

Revenue

Rental revenue increased $0.47 million or 3% over Q4-2019 and $3.41 million or 5% over 2019 as a result of third-party acquisitions completed in 2019: Melcor Crossing (Nov-2019), and Staples Centre (Apr-2019). In 2020 Melcor Crossing contributed rental revenue of $7.17 million (2019 - $0.98 million) and Staples Centre contributed rental revenue of $0.98 million (2019 - $0.67 million). Revenue from these new properties was partially offset by a decline in same-asset revenue due to reduced recovery revenue on account of lower direct operating costs, declining lease rates (including lease restructures completed as part of pandemic relief), and increased vacancy.

In 2020 we completed 258,661 sf of lease renewals (including holdovers) and had 87,189 sf in new leases commence for steady occupancy of 87.6%. While we continue to see pockets of opportunity, we anticipate that the COVID pandemic will remain a drag on the commercial leasing market.

The table below summarizes leasing activity for 2020:

	Square feet	Weighted average base rent (per sf)	Occupancy %
Opening occupancy	**2,824,787**	**$16.79**	**88.0 %**
Expiring leases	(312,243)	$16.82	
Other terminations	(44,631)	$18.16	
Renewals/holdovers	258,661	$18.25	
New leasing	87,189	$12.47	
Lease amendments	(4,799)	—	
Closing occupancy	**2,808,964**	**$16.67**	**87.6 %**

Weighted average base rent was $16.67, down $0.12 compared to December 31, 2019 due to lower rates on new leasing and pandemic related lease restructures. Weighted average base rents on new leasing were down due to the greater proportionate share of office deals, including 17,000 sf in short-term gross and operating cost only.

In $000s, except as noted

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

	Dec 31, 2020	Dec 31, 2019	△%
Weighted average base rent (per sf)	**$16.67**	$16.79	(1)%
Weighted average remaining lease term	**3.96**	4.37	(9)%
GLA	**3,208,298**	3,208,950	— %
Occupancy	**87.6 %**	88.0 %	0 %
Retention	**82.8 %**	59.6 %	39 %

Recoveries are amounts recovered from tenants for direct operating expenses incurred and include a nominal administrative charge. We typically expect recovery revenue to correlate with changes in recoverable operating expenses. Recovery revenue was up 1% in 2020 while direct operating expenses increased 9% over 2019. Our recovery ratio (recoveries divided by direct operating expenses) was down 7% over 2019 due to $0.71 million in CECRA related write-offs and $1.04 million in bad debts expense (2019 - $0.20 million) (Collectively "Bad Debts"). Removing the bad debts, our recovery ratio was down 2% over 2019 due to higher vacancy at certain properties and fluctuations in expenditures incurred within the portfolio year to year.

Other revenue is comprised of parking revenue and other miscellaneous revenue that is ancillary to our business and fluctuates from period to period.

Amortization of tenant incentives can fluctuate based on the timing of lease rollovers and leasing incentives. Straight-line rent adjustments relate to new leases which have escalating rent rates and/or rent-free periods. The increase in tenant incentives is due to higher deal costs, particularly within our office portfolio. Straight-line rent adjustments (SLR) fluctuate due to the timing of signed leases and the rent-steps under individual leases. Lease restructures completed during the period led to fluctuation in SLR during 2020.

Direct operating expenses

Direct operating expenses were up 9% over 2019 due to $1.75 million in bad debts recorded, including CECRA related write-offs, in 2020 (2019 - $0.20 million). Direct operating expenses related to Melcor Crossing were $2.69 million in 2020 compared to $0.44 million in 2019 when it was only included in results since its acquisition in November.

Property taxes and utilities were up 3% for the year and on a same-asset basis, property taxes and utilities decreased by 4%. Property taxes were lower across the portfolio due to reduced property values and the cancellation of planned mill rate increases in many municipalities. Utilities were also down due to reduced consumption during periods of lock-downs and work from home mandates.

Operating expenses were up 15% over 2019 as a result of new property acquisitions and bad debts. Excluding bad debts, operating expenses were up 4% in 2020. At 1% of rental revenue, our provision for bad debt (excluding CECRA write-offs) is unprecedented and our expectation is that it will remain elevated in the near term.

NOI and Same-Asset NOI

Net operating income (NOI) and same-asset NOI are non-standard metrics 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.

NOI was up 3% over 2019 due to new properties acquired. On a same-asset basis NOI was down 6% over 2019 due to $1.75 million in bad debts recorded in 2020. Excluding bad debts same-asset NOI was $43.34 million in 2020, down 2% over 2019 as a result of lower occupancy on certain properties.

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)	**2020**	**2019**	△%
Same-asset NOI	**41,705**	44,193	(6)%
Acquisitions	**4,751**	1,107	
NOI	**46,456**	45,300	3 %
Amortization of tenant incentives	**(3,779)**	(3,541)	
Straight-line rent adjustments	**655**	628	
Net rental income	**43,332**	42,387	2 %

Property Profile

At December 31, 2020 our portfolio includes interests in 39 retail, office and industrial income-producing properties located in western Canada for a total of 3,208,298 sf of GLA, and a land lease community.

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

Property Type	Number of Properties	GLA (sf)/Lots	% of Portfolio (GLA)	Fair Value of Investment Properties ($000s)	Net Rental Income 2020 ($000s)
Retail	14	1,397,153	43.5 %	397,191	24,573
Office	21	1,603,054	50.0 %	264,931	14,820
Industrial	3	208,091	6.5 %	37,970	2,927
Land Lease Community	1	308 lots	n/a	16,200	1,012
	39	**3,208,298**	**100.0 %**	**716,292**	**43,332**

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	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Year ended December 31 ($000s)								
Rental revenue	**37,900**	32,379	**31,564**	33,590	**3,738**	3,828	**1,370**	1,362
Net rental income	**24,573**	21,765	**14,820**	16,608	**2,927**	3,001	**1,012**	1,013
Same-asset NOI	**19,865**	20,982	**17,763**	19,122	**3,065**	3,076	**1,012**	1,013
As at December 31								
Weighted average base rent (sf)	**$19.95**	$19.99	**$13.82**	$13.88	**$14.12**	$14.53	**n/a**	n/a
Occupancy	**90.7 %**	92.8 %	**83.2 %**	82.4 %	**100.0 %**	100.0 %	**100.0 %**	100.0 %

Retail - our 14 retail properties include 6 multi-building retail power centres, 7 neighborhood shopping centres and a single tenant property. Newly acquired properties contributed to the 17% increase in rental revenue and 13% increase in net rental income. Melcor Crossing (acquired Nov-2019) contributed $7.17 million in rental revenue (2019 - $0.98 million) while Staples Distribution Centre (acquired Apr-2019) contributed $0.98 million in 2020 (2019 - $0.67 million). This growth was offset by a decline in same-asset revenue, a direct result of lower recoveries on account of lower costs. The decrease in occupancy relates to three national fashion retailers not renewing their leases in the Edmonton area (31,000 sf).

Same-asset NOI was down 5% over 2019 due to $0.42 million in bad debts related to CECRA and $0.56 million provisions for bad debts recorded in addition to CECRA related write-offs (2019 - $0.03). The retail asset class has borne the brunt of the pandemic's effects.

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 and net rental income were down 6% and 11% respectively over 2019 as a result of the departure of one of our larger tenants from a downtown Edmonton office building on October 1, 2019. Weighted average base rents trended down due to market pressure on lease rates. Ongoing competition for downtown Edmonton office tenants and the impact on the suburban market continues to drag on the portfolio. Same-asset NOI was down 7% over 2019 due to $0.25 million in bad debts related to CECRA and $0.48 million for bad debts expense (2019 - $0.17 million). Excluding the impact of bad debts, NOI was down due to higher vacancy during 2020.

Industrial - our 3 industrial properties include single and multi-tenant buildings. Our assets remained fully occupied through 2020. Same-asset NOI was stable over 2019.

Land Lease Community – we have one land lease community in Calgary, AB consisting of 308 pad lots. It was 100% occupied at December 31, 2020 (2019 – 100%). Revenue and NOI on our land lease community was stable in 2020.

Regional Analysis

The following table summarizes the composition of our properties at December 31, 2020 by geographic region:

Geographic Region	Number of Properties	GLA (sf)	% of Portfolio (GLA)	Fair Value of Investment Properties ($000s)	Net Rental Income 2020 ($000s)
Northern Alberta	22	1,955,119	60.9 %	427,628	24,556
Southern Alberta	10	887,209	27.7 %	223,661	15,082
Saskatchewan & British Columbia	7	365,970	11.4 %	65,003	3,694
	39	**3,208,298**	**100.0 %**	**716,292**	**43,332**

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	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Year ended December 31 ($000s)						
Rental revenue	**44,246**	40,500	**23,293**	23,426	**7,033**	7,233
Net rental income	**24,556**	22,881	**15,082**	15,526	**3,694**	3,980
Same-asset NOI	**22,778**	24,377	**14,835**	15,432	**4,092**	4,384
As at December 31						
Weighted average base rent (per sf)	**$17.15**	$17.41	**$17.10**	$16.89	**$13.21**	$13.46
Occupancy	**83.8 %**	84.6 %	**95.0 %**	94.6 %	**89.8 %**	90.6 %

Northern Alberta - our Northern Alberta assets are located throughout the greater Edmonton area, including Leduc, Spruce Grove, Red Deer and Grande Prairie. Rental revenue and net rental income were up over 2019 mainly due to the acquisition of Melcor Crossing (Nov-2019). Same-asset NOI decreased 7% due to $0.92 million in bad debts recorded (2019 - $0.04 million) and lower occupancy in our office portfolio.

Southern Alberta - our Southern Alberta assets are located throughout the greater Calgary area, including Chestermere, Airdrie and Lethbridge. Rental revenue decreased 1% over 2019. Same-asset NOI was down 4% due to $0.76 million in bad debts recorded (2019 - $0.11 million).

Saskatchewan and British Columbia - our Saskatchewan and British Columbia assets are located in Regina, Saskatchewan and Kelowna, British Columbia. Rental revenue was down by 3% and same-asset NOI was down 7% due to lower lease rates and occupancy. Bad debts were $0.03 million in the year (2019 - $0.05 million).

General & Administrative Expense

	Year ended December 31		
($000s)	**2020**	**2019**	△%
Asset management fee	**1,916**	1,788	7 %
Professional fees	**483**	372	30 %
Public company costs	**281**	335	(16)%
Other	**363**	373	(3)%
	3,043	2,868	6%

General & administrative (G&A) expense were $3.04 million (4% of rental revenue) in 2020. G&A was up 6% due to increased asset management and professional fees. Asset management fees, which are based on the gross book value of the portfolio, increased as a result of acquisitions completed in 2019 while professional fees increased due to the complete portfolio revaluation in Q2-2020. Public company costs were down as a reduction in trustee remuneration was one of the cash conservation strategies enacted in the second quarter. 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)	**2020**	**2019**	△%
Interest on mortgages payable and revolving credit facility	**11,346**	10,001	13 %
Interest on Class C LP Units	**2,368**	2,516	(6)%
Amortization of fair value adjustment on Class C LP Units	**(98)**	(131)	(25)%
Interest on convertible debentures	**3,554**	3,455	3 %
Accretion on convertible debentures	**553**	256	116 %
Fair value adjustment on derivative instruments	**(1,063)**	789	nm
Amortization of deferred financing fees	**1,167**	1,499	(22)%
Finance costs before distributions	**17,827**	**18,385**	**(3%)**
Distributions on Class B LP Units	**7,075**	10,195	(31)%
Finance costs	**24,902**	**28,580**	**(13)%**

Finance costs were down $3.68 million or 13% over 2019 as a result of reduced distributions on Class B LP Units and fair value adjustments on our derivative instruments. Excluding the impact of fair value adjustments, finance costs decreased $1.83 million or 7%. In the comparable period, the timing of the 2019 Debenture issuance, the Melcor Crossing acquisition and subsequent mortgage financing, and the 2014 Debenture redemption resulted in elevated finance costs.

Higher interest on mortgages payable and revolving credit facility is due to higher interest expense as a result of portfolio growth and partially offset by lower interest rates on our revolving credit facility and 2020 re-financings. Lower interest on Class C LP units was due to repayments made in the past twelve months, which reduced the outstanding balance.

On October 29, 2019 we issued 5.10% extendible convertible unsecured subordinated debentures (the "2019 Debentures") to the public for gross proceeds of $46.00 million, including $6.00 million issued pursuant to the exercise of an over-allotment option. On December 19, 2019 we redeemed the $34.50 million 2014 Debentures, which paid a coupon of 5.50% annually. The $23.00 million 2017 Debentures pay a coupon of 5.25% annually.

Distributions on Class B LP Units are recorded and paid to holders equal to those declared on trust units ($0.43875 per unit during the year). Distributions in the quarter were $0.09 per unit, consistent with both Q3-2020 and Q2-2020, and down 47% compared to Q1-2020. Distributions on Class B LP Units decreased 31% over 2019 as a result of the 47% decrease in the distribution payment offset by the 1,225,822 new Class B LP Units issued to Melcor for $10.00 million in Q4-2019 in conjunction with the acquisition of Melcor Crossing.

As at December 31, 2020, the weighted average interest rate on our revolving credit facility, mortgages payable, Class C LP Units and convertible debentures was 3.68% based on period end balances (December 31, 2019 – 3.78%).

Income Taxes

As at December 31, 2020, the REIT qualifies as a mutual fund trust within the meaning of the Income Tax Act (Canada) and as a real estate investment trust eligible for the 'REIT Exception' under the Specified Investment Flow-Through (SIFT) rules; accordingly, no current or deferred income tax expense has been recognized on income earned or capital gains recognized subsequent to the formation of the REIT.

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

Funds From Operations (FFO), Adjusted Funds From Operations (AFFO) and Adjusted Cash Flow From Operations (ACFO) are non-standard measures used in the real estate industry to measure the operating and cash flow performance of investment properties.

Funds from operations & adjusted funds from operations

REALpac defines Funds From Operations (FFO) as net income (calculated in accordance with IFRS), adjusted for, among other things, fair value adjustments, amortization of tenant incentives and effects of puttable instruments classified as financial liabilities (distributions on Class B LP Units). The REIT calculates FFO in accordance with REALpac.

We believe that FFO is an important measure of operating performance and the performance of real estate properties, while AFFO is an important cash flow measure. AFFO is not a substitute for cash flow from operations as it does not include changes in operating assets and liabilities.

FFO and AFFO are not a substitute for net income established in accordance with IFRS when measuring the REIT's performance. While our methods of calculating FFO and AFFO comply with REALpac recommendations, they may differ from and not be comparable to those used by other entities.

	Year ended December 31		
($000s, except per unit amounts)	**2020**	**2019**	△%
Net income (loss) for the year	**5,763**	(488)	
Add / (deduct)			
Fair value adjustment on investment properties	**62,748**	1,622	
Fair value adjustment on Class B LP Units	**(53,052)**	9,922	
Amortization of tenant incentives	**3,779**	3,541	
Distributions on Class B LP Units	**7,075**	10,195	
Fair value adjustment on derivative instruments	**(1,063)**	789	
Funds From Operations (FFO)	**25,250**	25,581	(1)%
Deduct			
Straight-line rent adjustments	**(655)**	(628)	
Normalized capital expenditures	**(2,349)**	(2,349)	
Normalized tenant incentives and leasing commissions	**(4,119)**	(4,119)	
Adjusted Funds from Operations (AFFO)	**18,127**	18,485	(2)%
FFO/Unit	**$0.86**	$0.91	
AFFO/Unit	**$0.62**	$0.65	
Weighted average number of units (000s):[1]	**29,200**	28,226	3 %

(1) 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)	**2020**	**2019**	**△%**
Funds From Operations (FFO)	**25,250**	25,581	(1)%
Convertible debentures interest	**3,554**	3,455	
Amortization of deferred financing fees	**682**	918	
Accretion on convertible debentures	**553**	256	
Funds From Operations - Diluted (FFO - Diluted)	**30,039**	30,210	(1)%
FFO - Diluted/Unit	**$0.83**	$0.89	
Diluted weighted average number of units (000s):(1)	**36,368**	33,763	8 %

(1) The diluted weighted average number of units includes Trust Units, Class B LP Units and convertible debentures. The comparative period weighted average number of units includes, in addition to the 2017 and 2019 Debentures, the 2014 Debentures which were redeemed in full on December 18, 2019.

Capital Expenditures

We continually invest in our assets with value-adding investments that enhance property quality, which contributes to higher occupancy and rental rates. These upgrades typically focus on increasing operating efficiency, property attractiveness, functionality and desirability, as well as initiatives focused on sustainability and energy reduction strategies to ensure our buildings are green. Asset enhancement and preservation investments fluctuate based on the nature and timing of projects undertaken, and are impacted by many factors including, but not limited to, the age and location of the property, and the leasing profile and strategy. The majority of building improvement expenditures are recoverable from tenants over 5-25 years. As actual expenditures can vary from one period to another, the REIT uses a normalized capital expenditure in determining AFFO and sustainable, economic cash flow of investment properties.

Normalized capital expenditures exclude new property development initiatives such as densification and non-recoverable capital as these are discretionary in nature. Normalized capital expenditures are calculated based on a trailing 5 year historical actual spend plus 5 year projected spend.

The following summarizes our actual expenditures compared to normalized amounts.

For the years ended December 31 ($000s)	**2020**	**2019**
Investment in property improvements	**1,473**	2,517
Less non-recoverable	**(520)**	—
Actual capital expenditures	**953**	2,517
Normalized capital expenditures	**2,349**	2,349
Variance	**(1,396)**	168

Actual capital expenditures include $0.52 million (2019 - $nil) in non-recoverable capital related to discretionary projects undertaken as pertains to redevelopment and rehabilitation of certain properties and tenants' spaces. Actual capital expenditures were below normalized capital expenditures by $1.40 million for the twelve-months ended December 31, 2020. In order to strengthen the REIT's flexibility to respond to and support tenants through COVID-19, the REIT deferred approximately $1.30 million in planned capital expenditures in 2020.

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)	**2020**	**2019**
Actual tenant incentives and direct leasing expenditures	**4,479**	5,716
Normalized tenant incentives and direct leasing expenditures	**4,119**	4,119
Variance	**360**	1,597

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

Adjusted cash flows from operations

REALpac defines Adjusted Cash Flow from Operations (ACFO) as cash flow from operations adjusted for, among other things, changes in operating assets and liabilities, payments of tenant incentives and direct leasing costs, non-cash finance costs, normalized capital expenditures and normalized tenant incentives and direct leasing costs. We calculate ACFO in accordance with the guidelines set out by REALpac; however, our calculation may differ from and not be comparable to other entities. We will continue to focus our discussion and performance analysis on ACFO.

	Year ended December 31		
($000s)	**2020**	**2019**	**△%**
Cash flows from operations	**13,786**	9,309	48 %
Distributions on Class B LP Units	**7,075**	10,195	
Actual payment of tenant incentives and direct leasing costs	**5,566**	4,168	
Changes in operating assets and liabilities	**(210)**	2,905	
Amortization of deferred financing fees[1]	**(1,167)**	(1,499)	
Normalized capital expenditures	**(2,349)**	(2,349)	
Normalized tenant incentives and leasing commissions	**(4,119)**	(4,119)	
Adjusted Cash Flows from Operations (ACFO)	**18,582**	18,610	— %
ACFO/Unit	**$0.64**	$0.66	
Weighted average number of units (000s):[2]	**29,200**	28,226	3 %

(1) In Q4-2019 we amended our definition of amortization of deferred financing fees to exclude accretion on convertible debenture. Amortization of deferred financing fees is an adjusting item in the calculation of ACFO. This change has been applied retroactively.

(2) For the purposes of calculating per unit ACFO the basic 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. We made monthly distributions to unitholders at a rate of $0.05625 per unit during the first quarter and reduced distributions to $0.03 per unit as of April 2020 due to the uncertainty created by the COVID-19 pandemic. Distributions to unitholders during the year were $5.74 million (2019 - $8.88 million).

Distributions made during the year ended December 31, 2020 represent a payout ratio of approximately 69% of ACFO (2019 - 102%). On an FFO basis, distributions represent a payout ratio 51% (2019 - 74%).

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 $8.05 million in 2020 (2019 - $0.43 million) as illustrated below.

	Year ended December 31		
($000s)	**2020**	2019	△%
Cash flows from operations	**13,786**	9,309	48 %
Distributions on Class B LP Units	**7,075**	10,195	(31)%
Cash flows from operations before Class B LP Unit distributions	**20,861**	19,504	7 %
Distributions to unitholders	**(5,739)**	(8,882)	(35)%
Distributions on Class B LP Units	**(7,075)**	(10,195)	(31)%
Total distributions	**(12,814)**	(19,077)	(33)%
Cash flows from operations before Class B LP Unit distributions less total distributions	**8,047**	427	1,785 %
Total distributions as a % of cash flows from operations before Class B LP Unit distributions	**61 %**	98 %	(38)%

Investment Properties

As at December 31, 2020 we owned 39 income-producing office, retail and industrial properties representing 3.21 million sf in GLA and a fair value of $716.29 million. The change in the fair value of our portfolio is summarized as follows:

	Fair Value of Portfolio
Balance, December 31, 2019	**776,212**
Additions:	
Property improvements	1,473
Direct leasing costs	783
Tenant inducements additions	3,696
Straight-line rent adjustments	655
Amortization of tenant incentives	(3,779)
Fair value adjustment on investment properties	(62,748)
Balance, December 31, 2020	**716,292**

Additions – during 2020 we invested $1.47 million in asset enhancement and preservation projects as part of our strategy to improve our assets to retain and attract tenants. The majority of improvement expenditures are recoverable from tenants over 5-25 years. We also spent $4.48 million on tenant inducements and direct leasing costs in connection with 345,850 sf of leasing completed during the year.

Fair value adjustment – we carry our investment properties at fair value in accordance with IFRS 13, Fair value measurement. The following table summarizes key metrics of our investment properties and components of the fair value calculation:

	Dec 31, 2020	Dec 31, 2019
Number of properties	**39**	39
Total GLA (sf)	**3,338,397**	3,339,030
GLA (REIT owned %) (sf)	**3,208,298**	3,208,950
Fair value of portfolio ($000s)	**716,292**	776,212
Value per square foot	**$223**	$242
NOI ($000s)	**46,456**	45,300
Weighted average capitalization rate	**7.00 %**	6.82 %
Weighted average terminal cap rate	**6.92 %**	6.87 %
Weighted average discount rate	**8.02 %**	7.76 %

The REIT's portfolio remained stable in the fourth quarter following a full revaluation of our portfolio by our external valuation professionals in the second quarter. Approximately 89% of the portfolio realized a valuation write-down, with losses ranging from 1% to 17%. The revaluations resulted in fair value losses of $62.75 million for the year.

For the year ended December 31, 2019, 32 phases of 53 legal phases with a fair value of $444.70 million were valued by qualified independent external valuation professionals, resulting in a fair value loss of $1.62 million.

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.

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

For the years ended December 31 ($000s)	**2020**	**2019**	$△
Northern Alberta	**(40,553)**	2,431	(42,984)
Southern Alberta	**(18,488)**	(1,469)	(17,019)
Saskatchewan & British Columbia	**(3,707)**	(2,584)	(1,123)
	(62,748)	(1,622)	(61,126)

Commercial real estate is currently trending towards lower lease rates, longer lease-up assumptions and higher vacancy allowances driving a 5% decrease in stabilized NOI. Continued market uncertainty and economic challenges have resulted in a 25-50 basis points increase in capitalization rates and discount rates on many of our assets.

The REIT continues 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, 2020			**December 31, 2019**		
	Min	**Max**	**Weighted Average**	Min	Max	Weighted Average
Capitalization rate	5.50%	10.00%	7.00%	5.50%	10.50%	6.82%
Terminal capitalization rate	5.75%	9.00%	6.92%	5.75%	9.00%	6.87%
Discount rate	6.25%	9.75%	8.02%	6.50%	9.50%	7.76%

A capitalization rate increase of 50 basis points (+0.5%) would decrease the fair value of investment properties by $47.93 million (2019 - $53.11 million) while a 50 basis points decrease (-0.5%) would increase it by $55.31 million (2019 - $61.51 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, 2020			**December 31, 2019**		
	Min	**Max**	**Weighted Average**	Min	Max	Weighted Average
Retail	5.50%	8.50%	6.84%	5.50%	8.25%	6.58%
Office	6.00%	10.00%	7.44%	6.00%	10.50%	7.38%
Industrial	6.75%	9.00%	7.35%	6.50%	8.75%	7.10%

Liquidity & Capital Resources

We employ a range of strategies to fund operations. Our principal liquidity needs are to:

- Fund recurring expenses;
- Meet debt service requirements;
- Make distribution payments;
- Fund capital projects; and
- Purchase investment properties.

We had cash conservation strategies in place to ensure long-term sustainability throughout 2020. 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)	**2020**	**2019**	$△
Cash from operating activities	**13,786**	9,309	4,477
Cash used in investing activities	**(573)**	(70,692)	70,119
Cash (used in) from financing activities	**(11,749)**	62,082	(73,831)
Increase in cash and cash equivalents	**1,464**	699	765
Cash and cash equivalents, beginning of year	**2,280**	1,581	699
Cash and cash equivalents, end of year	**3,744**	2,280	1,464

Operating activities

Cash from operating activities increased due to lower distribution payments, and fluctuations in adjustments for working capital and expenditures on direct leasing costs. Our tenant incentives and direct leasing cost investments were $5.57 million in the year (2019 - $4.17 million) as we completed 345,850 sf of new and renewed leasing, resulting in year-end occupancy of 87.6%. The timing of lease expiries impacts the level of spending on tenant incentives and direct leasing costs and will fluctuate from period to period. Cash flows before adjustments for working capital and payment of tenant incentives and direct leasing costs was up $2.76 million over 2019. The increase is due to new property acquisitions and lower Class B LP Unit distributions, and partially offset by bad debts expense and lower same-asset NOI.

Investing activities

We invested $1.47 million in our 2020 capital program (2019 - $2.52 million). This investment is lower than initially planned as we carefully reduced non-essential activity at our properties. 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.

In 2020 we received $0.90 million in principal repayments on our loan receivable. All amounts have now been repaid.

In the comparative period, we invested $68.18 million in third-party acquisitions.

Financing activities

We repaid $13.03 million on our revolving credit facility in 2020 from proceeds on secured debt re-financings.

During 2020 we re-financed four secured debts for gross proceeds of $32.89 million (net $17.69 million). In 2019 secured debt financings provided gross proceeds of $76.62 million (net $39.90 million).

In response to the pandemic, the REIT entered into mortgage amending agreements with various lenders, including those held by Melcor as Class C LP Unit debt, in order to obtain temporary payment relief to conserve cash. These arrangements resulted in $3.81 million in reduced payments or 15% of our contracted secured debt payments during the year. We have recommenced regular payments on all secured debts.

On April 1, 2020 we renewed our NCIB program, which expires on March 31, 2021. We repurchased 82,790 units at a cost of $0.34 million. In light of continued market volatility and as part of our cash conservation program, the REIT suspended its purchases under the NCIB program and cancelled its Automatic Share Purchase Plan (ASPP) following the expiration of its Q1 blackout on May 15, 2020. We maintain that our units have been trading in a price range which does not reflect our current and future business prospects.

In 2019, we received net proceeds for $44.28 million from the issuance of the 2019 Debentures and redeemed the 2014 Debentures in full for $34.50 million. We also received $10.00 million in proceeds from the issuance of Class B LP Units as part of the Melcor Crossing acquisition.

Our monthly distribution was reduced by 47% to $0.03 per unit beginning in April 2020 through December 2020 for total annual distributions of $6.09 million (2019 - $8.88 million).

The reduction in the REIT's distribution rate, combined with other measures undertaken to preserve cash will provide near term liquidity and counterbalance operating income uncertainty. On January 14, 2021, the REIT announced a 17% increase in its distribution in response to 2020 results and outlook for 2021. 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, 2020, we had $3.74 million in cash and cash equivalents and $25.00 million in undrawn liquidity under our revolving credit facility.

Capital Structure

We define capital as the total of trust units, Class B LP Units, Class C LP Units, mortgages payable, convertible debentures and amounts drawn under our revolving credit facility.

Pursuant to the Declaration of Trust (DOT) Degree of Leverage Ratio, we may not incur or assume any indebtedness if, after incurring or assuming such indebtedness, the total indebtedness of the REIT would be more than 60% (65% including any convertible debentures) of Gross Book Value (GBV). Throughout the year, we were in compliance with the Degree of Leverage Ratio and had a ratio of 50% as at December 31, 2020 (59% including the convertible debenture) (2019 - 50% and 59% respectively).

As at December 31, 2020, the REIT's total capitalization was $738.71 million (2019 - $743.89 million), comprised as follows:

($000s)	Dec 31, 2020	Dec 31, 2019
Revolving credit facility(1)	10,000	23,025
Mortgages payable(1)	314,578	293,265
Class C LP Units(2)	56,080	68,723
Indebtedness, excluding convertible debentures	**380,658**	**385,013**
Convertible debentures(3)	69,000	69,000
Indebtedness	**449,658**	**454,013**
Class B LP Units(4)	160,207	160,207
Trust units	128,848	129,666
Equity	**289,055**	**289,873**
Total capitalization	**738,713**	**743,886**
Gross Book Value ("GBV")(5)	**766,457**	**766,457**
Debt to GBV, excluding convertible debentures (maximum threshold - 60%)	**50 %**	**50 %**
Debt to GBV (maximum threshold - 65%)	**59 %**	**59 %**

(1) Debts are presented excluding unamortized transaction costs and discount on bankers acceptance (as applicable).
(2) Class C LP Units excluding unamortized fair value adjustment on Class C LP Units (as applicable).
(3) Convertible debentures are presented at face value, excluding unamortized transaction costs and amounts allocated to conversion feature.
(4) Class B LP Units are classified as equity for purposes of this calculation and are included at their book value.
(5) GBV is calculated as the cost of the total assets acquired and development costs less dispositions.

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, 2020 we were in compliance with our financial covenants. We also have financial covenants on certain mortgages for investment properties. At December 31, 2020 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	2021	2022	2023	2024	2025	Thereafter
Revolving credit facility	10,000	10,000	—	—	—	—	—
Mortgages payable	314,578	50,269	34,879	43,860	44,702	25,898	114,970
Class C LP Units	56,080	28,932	1,095	14,932	451	467	10,203
Convertible debentures	69,000	—	23,000	—	46,000	—	—
Total	**449,658**	**89,201**	**58,974**	**58,792**	**91,153**	**26,365**	**125,173**
% of portfolio	100 %	20 %	13 %	13 %	20 %	6 %	28 %

We ladder the renewal and maturity dates on our borrowings as part of our capital management strategy. This mitigates the concentration of interest rate and financing risk associated with refinancing in any particular period. In addition, we try to match the maturity of our debt portfolio with the weighted average remaining lease term on our properties.

During the year we re-financed four secured debts providing gross proceeds of $32.89 million at a rate of 2.80%, retiring $5.47 million maturing mortgages and $9.73 million Class C LP Unit debt. Additional proceeds were primarily due to re-financing of two phases of Leduc Common, an Edmonton area retail centre, which had a maturing loan to value of 29%. We continue to work with our lender towards an extension of $14.25 million in financing on 10117 Jasper Avenue. The REIT continues to monitor its secured debts and proactively engage with lenders in regards to upcoming maturities.

Over the next twelve months, six mortgages are up for renewal with a maturing principal balance of $41.02 million with a weighted average interest rate of 2.96%. We also have three 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 $27.51 million and a weighted average interest rate of 2.84%. The financing environment, including commercial lending, has been significantly impacted by the effects of COVID-19 and various government measures undertaken. While conditions have improved since the height of pandemic, lenders remain cautious, and conditions remain uncertain as to the near and long-term impacts of the pandemic on real estate fundamentals. Subsequent to year-end we completed the re-financing of two Edmonton area properties for gross proceeds of $15.15 million ($3.45 million net) at a weighted average rate of 2.96%. Discussions are underway with our syndicate lender for renewal of the credit facility as well as offers for financing on three secured debts with a maturing balance of $36.58 million. We expect to be able to re-finance remaining debts at market competitive terms.

We received payment relief on various debts from our lending partners, resulting in $3.81 million in reduced payments during the year or 15% of our contracted secured debt payments. Regular repayments have resumed. Temporary payment relief combined with other capital management strategies deployed provided the REIT with near-term liquidity to support our tenants and partners through the uncertainty brought about by the economic impacts of COVID-19.

The REIT and Melcor have good, long standing relationships with our lending partners.

Debt Analysis – our mortgages payable, Class C LP Units and convertible debentures bear interest at fixed rates (including one variable rate mortgage fixed via a floating for fixed interest rate swap contract); our revolving credit facility bears interest at variable rates. The following table summarizes the interest rates and terms to maturity:

($000s)	Total	Fixed	Variable	Weighted average interest rate	Weighted average term to maturity
Revolving credit facility	10,000	—	10,000	3.70 %	0.42
Mortgages payable	314,578	293,695	20,883	3.42 %	5.03
Class C LP Units	56,080	56,080	—	3.30 %	2.05
Convertible debentures	69,000	69,000	—	5.52 %	3.34
Total	**449,658**	**418,775**	**30,883**	**3.68 %**	**4.29**

The weighted average interest rate on our debts was 3.68% (December 31, 2019 - 3.78%).

Debt Service Coverage Ratio and Finance Costs Coverage Ratio – we calculate debt service coverage ratio as FFO divided by principal repayments on mortgages payable and Class C LP Units made during the period. We calculate interest coverage as FFO plus finance costs divided by finance costs expensed during the period, less distributions on Class B LP Units. In 2020 we deferred scheduled principal payments, resulting in an anomalous increase in our debt service coverage ratio. Excluding these deferrals ($2.84 million), our debt service coverage ratio would have been 1.97. We consider these measures to be useful in evaluating our ability to service our debt. These metrics are not calculated for purposes of covenant compliance on any of our debt facilities.

For the years ended December 31 ($000s)	2020	2019
FFO	**25,250**	**25,581**
Principal repayments on Mortgages payable	7,077	7,700
Principal repayments on Class C LP Units	2,909	3,628
Debt service coverage ratio	**2.53**	**2.26**
FFO plus finance costs	44,140	43,177
Finance costs(1)	18,890	17,596
Finance costs coverage ratio	**2.34**	**2.45**

(1) Finance costs excluding finance expense recognized on Class B LP Unit distributions and fair value adjustment on derivative instruments.

Equity

The REIT is authorized to issue an unlimited number of trust units and an unlimited number of special voting units. Each trust unit represents a holder's proportionate undivided beneficial ownership interest in the REIT and will confer the right to one vote at any meeting of unitholders and to receive any distributions by the REIT. Special voting units have no economic entitlement in the REIT but entitle the holder to one vote per special voting unit. Special voting units may only be issued in connection with securities exchangeable into trust units (including Class B LP Units).

Class B LP Units of the Partnership are economically equivalent to, and exchangeable into, trust units at the option of the holder, and therefore, are considered a dilutive instrument. The Class B LP Units are classified as financial liabilities in accordance with IAS 32, Financial Instruments – presentation, due to their puttable feature.

On April 1, 2020 we commenced a new NCIB to buy back our trust units. We are entitled to purchase up to 655,792 trust units for cancellation, representing approximately 5% of the REIT's issued and outstanding trust units. The trust units may be repurchased up to a maximum daily limit of 3,207. The price which the REIT will pay for trust units repurchased under the plan will be the market price at the time of acquisition. The NCIB ends one year from commencement, on March 31, 2021. To date we purchased 59,526 units for $0.21 million under the NCIB purchase plan which commenced April 1, 2020 at a weighted average cost of $3.50 per unit of 36% of book value. The REIT suspended its purchases under the NCIB program and cancelled its Automatic Share Purchase Plan (ASPP) on May 15 in light of continued market volatility and as part of our cash conservation program. The REIT still believes that our units have been trading in a price range which does not reflect the value of the units in relation to our current and future business prospects.

Under the previous NCIB which expired on March 31, 2020, we purchased 23,264 units for $0.13 million. In total, the REIT purchased and cancelled 76,768 units for $0.53 million at a weighted average cost of $6.95 per unit or 70% of book value.

The following table summarizes the change in units during the year and the fully diluted number of units outstanding:

	December 31, 2020		December 31, 2019	
Issued and fully paid units ($000s)	**Units**	**$ Amount**	**Units**	**$ Amount**
Balance, beginning of year	13,133	129,666	13,187	130,194
Repurchase of trust units	(83)	(818)	(54)	(528)
Balance, end of year	13,050	128,848	**13,133**	**129,666**
Dilutive securities				
Class B LP Units(1)	16,125	160,207	16,125	160,207
Convertible debentures	7,169	69,000	7,169	69,000
Diluted balance, end of year	36,344	358,055	**36,427**	**358,873**

(1) A corresponding number of special voting units are held by Melcor through an affiliate.

Off Balance Sheet Arrangements

As at December 31, 2020, 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 $2.93 million (2019 - $1.40 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, 2020 the loan balance was $3.38 million (2019 - $3.48 million).

Quarterly Results

	2020				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue ($000s)	18,742	18,441	18,097	19,292	18,273	17,468	17,474	17,944
Net income (loss) ($000s)(1)	(15,714)	(1,645)	(60,790)	83,912	(5,220)	2,310	(56)	2,478
Funds from operations (FFO) ($000s)	6,590	5,417	6,513	6,730	6,002	6,570	6,478	6,531
Adjusted funds from operations (AFFO) ($000s)(2)	5,144	3,485	4,636	4,862	4,232	4,860	4,776	4,617
Adjusted cash flows from operations (ACFO) ($000s)(4)	5,283	3,593	4,740	4,965	4,315	4,875	4,790	4,630
Per unit metrics								
Earnings (loss) per unit (basic)	$ (1.20)	$ (0.13)	$ (4.64)	$ 6.39	$ (0.40)	$ 0.18	$ —	$ 0.19
FFO (basic)	$ 0.23	$ 0.19	$ 0.22	$ 0.23	$ 0.21	$ 0.23	$ 0.23	$ 0.23
AFFO (basic)(2)	$ 0.18	$ 0.12	$ 0.16	$ 0.17	$ 0.15	$ 0.17	$ 0.17	$ 0.16
ACFO (basic)(4)	$ 0.18	$ 0.12	$ 0.16	$ 0.17	$ 0.15	$ 0.17	$ 0.17	$ 0.16
Annualized distribution rate(3)	$0.360	$0.360	$0.360	$0.360	$0.675	$0.675	$0.675	$0.675
FFO Payout Ratio	40%	48%	40%	73%	81%	72%	73%	73%
AFFO Payout Ratio	51%	75%	57%	102%	114%	97%	99%	103%
ACFO Payout Ratio	50%	73%	55%	105%	112%	97%	99%	102%
Period-end closing unit price	$4.83	$3.83	$3.70	$2.89	$8.12	$7.74	$7.65	$7.58
Annualized distribution yield on closing unit price (%)(3)	7.45 %	9.40 %	9.73 %	12.46 %	8.31 %	8.72 %	8.82 %	8.91 %

(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) On March 20, 2020 the REIT announced a cut to its distribution for April 2020 to $0.03 per trust units (from $0.05625 per unit).

(4) In Q4-2019 we amended our definition of amortization of deferred financing fees to exclude accretion on convertible debenture. Amortization of deferred financing fees is an adjusting item in the calculation of ACFO. This change was applied retroactively.

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Fourth Quarter Results

Consolidated Revenue & Net Operating Income

	Three months ended December 31		
($000s)	2020	2019	△%
Base rent	12,079	11,753	3 %
Recoveries	7,093	6,652	7 %
Other	632	585	8 %
Amortization of tenant incentives	(891)	(870)	2 %
Straight-line rent adjustment	(171)	153	(212)%
Rental revenue	18,742	18,273	3 %
Operating expenses	3,736	3,591	4 %
Utilities and property taxes	3,882	3,953	(2)%
Direct operating expenses	7,618	7,544	1 %
Net rental income	11,124	10,729	4 %
NOI	12,186	11,446	6 %
Same-asset NOI	10,975	10,703	3 %
Operating margin	59 %	59 %	— %

Fourth quarter rental revenue increased $0.47 million or 3% over Q4-2019 as a result of the acquisition of Melcor Crossing in November 2019. Melcor Crossing contributed rental revenue of $1.87 million in Q4-2020 compared to $0.98 million in Q4-2019. Excluding the impact of Melcor Crossing, rental revenue was stable with higher recoveries on account of timing of operating expenses offsetting a decline in base rent and straight-line rent adjustment. Lease amendments lead to a decline in straight-line rent adjustments in the fourth quarter. Direct operating expenses were up 1% over Q4-2019. Excluding the impact of property acquisitions, direct operating expenses were down 4%. Fourth quarter operating expenses were atypically low due to recovery of previously provided bad debts expense as well as proceeds from Melcor's participation in the Canada Emergency Wage Subsidy (CEWS). Same-asset NOI was up 15% over Q3-2020 due to bad debts expense in the third quarter compared to a net recovery of bad debts expense in the fourth quarter. Same-asset NOI was up 3% over Q4-2019 due to lower non-recoverable expenses.

General & Administrative Expense

	Three months ended December 31		
($000s)	2020	2019	△%
Asset management fee	479	463	3 %
Professional fees	141	73	93 %
Public company costs	49	71	(31)%
Other	95	100	(5)%
	764	707	8 %

Asset management fees were up 3% over Q4-2019 due to the acquisition of Melcor Crossing in November 2019. Professional fees and other expenses fluctuate from period to period due to the timing of costs incurred. Public company costs were down as a reduction in trustee remuneration was one of the cash conservation strategies enacted in the second quarter of 2020.

Finance Costs

	Three months ended December 31		
($000s)	**2020**	**2019**	△%
Interest on mortgages payable and revolving credit facility	**2,832**	2,669	6 %
Interest on Class C LP Units	**565**	617	(8)%
Amortization of fair value adjustment on Class C LP Units	**(2)**	(32)	(94)%
Interest on convertible debentures	**888**	1,126	(21%)
Accretion on convertible debentures	**141**	115	23%
Fair value adjustment on derivative instruments	**920**	585	57 %
Amortization of deferred financing fees	**249**	423	(41)%
Finance costs before distributions	**5,593**	**5,503**	**2%**
Distributions on Class B LP Units	**1,451**	2,653	(45)%
Finance costs	**7,044**	**8,156**	**(14)%**

Finance costs for the fourth quarter were down $1.11 million or 14% over Q4-2019 as a result of reduced distributions on Class B LP Units. Finance costs before distributions were up $0.09 million or 2% in Q4-2020 as a result of higher fair value adjustments on derivative instruments and portfolio growth. Finance costs in the comparative period were elevated due to the timing of the 2019 Debenture issuance, Melcor Crossing acquisition and subsequent mortgage financing, and the 2014 Debenture redemption.

Funds from Operations & Adjusted Funds from Operations

	Three months ended December 31		
($000s, except per unit amounts)	**2020**	**2019**	△%
Net (loss)/income for the period	**(15,714)**	(5,220)	
Add / (deduct)			
Fair value adjustment on investment properties	**2,917**	1,364	
Fair value adjustment on Class B LP Units	**16,125**	5,750	
Amortization of tenant incentives	**891**	870	
Distributions on Class B LP Units	**1,451**	2,653	
Fair value adjustment on derivative instruments	**920**	585	
Funds From Operations (FFO)	**6,590**	6,002	10 %
Deduct			
Straight-line rent adjustments	**171**	(153)	
Normalized capital expenditures	**(585)**	(587)	
Normalized tenant incentives and leasing commissions	**(1,032)**	(1,030)	
Adjusted Funds from Operations (AFFO)	**5,144**	4,232	22 %
FFO/Unit	**$0.23**	$0.21	
AFFO/Unit	**$0.18**	$0.15	
Weighted average number of units (000s):(1)	**29,176**	28,703	9 %

(1) 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 up 10% and 22% over Q4-2019 due to higher same-asset NOI and lower finance costs.

Fourth quarter distributions to unitholders were $1.17 million (2019 - $2.22 million).

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

	Three months ended December 31		
($000s)	2020	2019	△%
Cash flows from operations	2,832	2,467	15 %
Distributions on Class B LP Units	1,451	2,653	
Actual payment of tenant incentives and direct leasing costs	1,706	(489)	
Changes in operating assets and liabilities	1,160	1,724	
Amortization of deferred financing fees[1]	(249)	(423)	
Normalized capital expenditures	(585)	(587)	
Normalized tenant incentives and leasing commissions	(1,032)	(1,030)	
Adjusted Cash Flows from Operations (ACFO)	5,283	4,315	22 %
ACFO/Unit	$0.18	$0.15	
Weighted average number of units (000s):[2]	29,176	28,703	

(1) In Q4-2019 we amended our definition of amortization of deferred financing fees to exclude accretion on convertible debenture. Amortization of deferred financing fees is an adjusting item in the calculation of ACFO. This change has been applied retroactively.

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

Outlook

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

Occupancy at year end was 87.6% compared to 88.0% at the end of the 2019. 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 10.1% of total GLA expiring in 2021, 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. Properties acquired in 2019 are ~95% occupied and, as newer construction, have longer lease terms remaining, helping to offset the potential loss of tenants as leases expire over the year.

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
2021	10,000	41,018	27,514	**78,532**	197,319	40 %	3.01 %
2022	—	26,578	—	**26,578**	40,011	66 %	3.43 %
2023	—	36,408	14,265	**50,673**	83,444	61 %	3.90 %
2024	—	38,254	—	**38,254**	75,870	50 %	3.67 %
2025	—	21,059	—	**21,059**	51,630	41 %	3.26 %
Thereafter	—	98,634	9,720	**108,354**	240,127	45 %	3.40 %
Total	10,000	261,951	51,499	**323,450**	688,401		

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

Over the next twelve months, six mortgages are up for renewal with a maturing principal balance of $41.02 million with a weighted average interest rate of 2.96%. We also have three 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 $27.51 million and a weighted average interest rate of 2.84%. The financing environment, including commercial lending, has been significantly impacted by the effects of COVID-19 and various government measures undertaken. While conditions have improved since the height of pandemic, lenders remain cautious, and conditions remain uncertain as to the near and long-term impacts of the pandemic on real estate fundamentals. Subsequent to year-end we completed the re-financing of two Edmonton area properties for gross proceeds of $15.15 million ($3.45 million net) at a weighted average rate of 2.96%. Discussions are underway with our syndicate lender for renewal of the credit facility as well as offers for financing on three secured debts with a maturing balance of $36.58 million. We expect to be able to re-finance remaining debts at market competitive terms.

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

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

With a strong, diversified portfolio, focus on property management and client relationships, and a solid pipeline of over 5.62 million sf of high quality assets being developed over the next 5-10 years, we remain well positioned for the future.

Business Environment & Risks

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

General Risks

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

Real Estate Risk

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

Other real property risks include:

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

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

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

Retail Shift from Bricks & Mortar Stores

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

Concentration of Properties and Tenants

Of our total GLA, 89% is located in Alberta at December 31, 2020. Consequently, the market value of the REIT's properties, the income generated by the REIT and the REIT's performance are particularly sensitive to changes in Alberta's real estate markets and general economic conditions. The factors impacting the real estate markets in Alberta and the Alberta economy in general may differ from those affecting other regions of Canada.

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

Competitive Conditions

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

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

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

Fixed Costs

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

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

Financing

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

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

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

- Cash flows may be insufficient to meet required payments of principal and interest;

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

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

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

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

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

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

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

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

Lease Maturity Risk

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

In $000s, except as noted

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
2021	123	323,721	10.1 %	$16.97
2022	81	409,221	12.8 %	$14.18
2023	91	603,489	18.8 %	$13.94
2024	85	366,184	11.4 %	$17.18
2025	95	438,258	13.7 %	$17.16
Thereafter	125	668,092	20.8 %	$20.60
Vacant Space	—	399,333	12.4 %	—
	600	**3,208,298**		

The following table illustrates the 2021 maturities by portfolio type and geographic area:

Property Type	Northern Alberta	Southern Alberta	Saskatchewan & British Columbia	Total
Retail	100,850	46,303	27,662	**174,815**
Office	98,758	27,118	23,030	**148,906**
Industrial	—	—	—	—
	199,608	**73,421**	**50,692**	**323,721**

2021 lease maturities includes 30,060 sf of leases on month-to-month.

Credit Risk

We are subject to credit risk as our tenants may not be able to fulfill their financial obligations on current balances and contracted future rents. We manage our credit risk through careful selection of tenants and look to obtain national tenants or tenants in businesses with a long standing history, or perform financial background checks including business plan review for smaller tenants. We manage our concentration risk by renting to an expansive tenant base, with no dependency on rents from any one specific tenant.

The following table illustrates the ten largest tenants for the portfolio, as measured by their percentage contribution to the total contracted future minimum lease payment for 2021 and corresponding areas leased by each tenant.

Rank	Top Ten Tenants (Parent Name)	% of Total Minimum Rent	Lease GLA (sf)	% of Total Owned GLA	Remaining Term (yrs)	No. of Locations in Properties	Credit Rating (S&P/ Moody's/DBRS)
1	Government of Alberta	3.8 %	117,925	3.5 %	3	6	A+ /Aa3/AA(low)
2	Alberta Health Services	3.4 %	88,997	2.7 %	5	2	---
3	Staples Canada ULC	2.9 %	96,891	2.9 %	9	3	---
4	Shoppers Drug Mart (Loblaw)	2.7 %	44,228	1.3 %	6	3	BBB/-/BBB(high)
5	BasinTek LLC	2.4 %	88,699	2.7 %	3	1	---
6	NDT Global	2.4 %	44,328	1.3 %	5	1	---
7	Fountain Tire Ltd.	2.0 %	30,514	0.9 %	8	1	---
8	Canadian Brewhouse	1.7 %	24,348	0.7 %	9	4	---
9	Royal Bank of Canada	1.6 %	18,067	0.5 %	4	4	AA-/Aa2/AA(high)
10	RONA (Lowe's)	1.6 %	92,315	2.8 %	3	2	BBB+/Baa1/BBB(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 outbreak of the novel strain of the coronavirus (COVID-19) has resulted in governments worldwide enacting emergency measures to contain the spread of the virus. Future outbreaks of viruses or other contagions, epidemic or pandemic diseases including subsequent outbreaks of COVID-19 may lead to prolonged voluntary or mandatory building and/or business closures, restrictions on travel and gatherings, quarantines, self-isolation and physical distancing. The impact of these measures may cause a general shutdown of economic activity and disrupt workforce and business operations in the regions where we operate. An occurrence such as this, including the COVID-19 pandemic, could have material adverse effects and increased risk, including but not limited to:

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

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

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

Significant Ownership by Melcor

Melcor holds a 55.3% effective interest in the REIT, where each Class B LP Unit is attached to a Special Voting Unit of the REIT. Melcor also holds all of the Class C LP Units of the Partnership.

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

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

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

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

Dependence on Melcor

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

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

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

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

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

Potential Conflicts of Interest with Melcor

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

Taxation Matters

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

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

Environmental Risk & Climate Change

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

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

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

It is the REIT's operating policy to obtain, or be entitled to rely on, a Phase I environmental site assessment conducted by an independent and experienced environmental consultant prior to acquiring a property. Where a Phase I environmental site assessment warrants further investigation, it is the REIT's operating policy to conduct further environmental investigations. Although such environmental assessments provide the REIT with some level of assurance about the condition of the properties, the REIT may become subject to liability for undetected contamination or other environmental conditions of its properties against which it cannot insure, or against which the REIT may elect not to insure where insurance premium costs are considered to be disproportionate to the assessed risk, which could have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to unitholders.

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

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

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

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

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

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

Cyber Security Risk

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

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

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

Joint Arrangements

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

Volatile Market Price of the REIT's Securities

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

Other Financial Information

Joint Arrangements

We record only our share of the assets, liabilities, revenue and expenses of our joint arrangements. In 2020, we had three joint arrangements (2019 - 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, 2020**	Dec 31, 2019
Revenue	**5,377**	5,608
(Loss) earnings	**(769)**	3,266
Assets	**64,934**	67,723
Liabilities	**34,094**	33,165

Joint arrangement activity at 100% ($000s)	**Dec 31, 2020**	Dec 31, 2019
Revenue	**10,754**	11,216
(Loss) earnings	**(1,538)**	6,532
Assets	**129,868**	135,446
Liabilities	**68,188**	66,330

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 new standard interpretation of IFRS 3, Business Combinations, effective January 1, 2020. Refer to note 5 to the consolidated financial statements for further discussion on the impact of adoption.

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, 2020. 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, 2020.

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, 2020, 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 4, 2021, the REIT was in compliance with all investment guidelines and operating policies stipulated in the DOT.

Non-Standard Measures

Throughout this MD&A, we refer to terms 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.

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 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)	2020	2019	△%	2020	2019	△%
Net income/(loss)	**(15,714)**	**(5,220)**		**5,763**	(488)	
Net finance costs	**7,032**	8,128		**24,830**	28,463	
Fair value adjustment on Class B LP Units	**16,125**	5,750		**(53,052)**	9,922	
Fair value adjustment on investment properties	**2,917**	1,364		**62,748**	1,622	
General and administrative expenses	**764**	707		**3,043**	2,868	
Amortization of tenant incentives	**891**	870		**3,779**	3,541	
Straight-line rent adjustment	**171**	(153)		**(655)**	(628)	
NOI	**12,186**	**11,446**	**6 %**	**46,456**	**45,300**	**3 %**

Same-asset NOI: this measure compares the NOI on assets that have been owned for the entire current and comparative period and are classified for continuing use.

Funds from operations (FFO): FFO 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.

FFO per unit: FFO per unit 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.

Adjusted funds from operations (AFFO): AFFO 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.

AFFO per unit: AFFO per unit is defined as AFFO divided by weighted average trust units and weighted average Class B LP Units outstanding.

Adjusted cash flows from operations (ACFO): ACFO 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.

ACFO per unit: ACFO per unit is defined as ACFO divided by weighted average trust units and weighted average Class B LP Units outstanding.

FFO, AFFO and ACFO Payout ratio: is calculated as per unit distributions divided by basic per unit FFO, AFFO and ACFO.

Finance costs coverage ratio: 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.

Debt service coverage ratio: is calculated as FFO for the period divided by principal repayments on mortgages payable and Class C LP Units made during the period.

Debt to Gross Book Value: is calculated as the sum of total amount drawn on revolving credit facility, mortgages payable, Class C LP Units, excluding unamortized fair value adjustment on Class C LP Units, liability held for sale (as applicable) and convertible debenture, excluding unamortized discount and transaction costs divided by Gross Book Value (GBV). GBV is calculated as the total assets acquired in the Initial Properties, subsequent asset purchases and development costs less dispositions.

Management's Responsibility for Financial Reporting

The consolidated financial statements, management's discussion and analysis (MD&A) and all financial information contained in the annual report are the responsibility of management. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and, where appropriate, have incorporated estimates based on the best judgment of management.

To discharge its responsibility for financial reporting, management is responsible for implementing and maintaining adequate internal controls to provide reasonable assurance that the Trusts's assets are safeguarded, that transactions are properly authorized and that reliable financial information is relevant, accurate and available on a timely basis.

The consolidated financial statements have been examined by PricewaterhouseCoopers LLP, the Trust's external auditors. The external auditors are responsible for examining the consolidated financial statements and expressing their opinion on the fairness of the financial statements in accordance with International Financial Reporting Standards. The auditor's report outlines the scope of their audit examination and states their opinion.

The Board of Trustees, through the Audit Committee, is responsible for ensuring management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee is comprised of three financially literate and independent directors. This committee meets regularly with management and the external auditors to review significant accounting, financial reporting and internal control matters. PricewaterhouseCoopers LLP have unrestricted access to the Audit Committee with and without the presence of management. The Audit Committee reviews the financial statements, the auditor's report, and MD&A and submits its report to the board of trustees for formal approval. The Audit Committee is also responsible for reviewing and recommending the annual appointment of external auditors and approving the external audit plan. These consolidated financial statements and Management's Discussion and Analysis have been approved by the Board of Trustees for inclusion in the Annual Report based on the review and recommendation of the Audit Committee.

Darin Rayburn
Chief Executive Officer

Naomi Stefura, CA
Chief Financial Officer

Edmonton, Alberta
March 4, 2021

Independent auditor's report

To the Unitholders of Melcor Real Estate Investment Trust

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Melcor Real Estate Investment Trust and its subsidiaries (together, the REIT) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The REIT's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2020 and 2019;
- the consolidated statements of income (loss) and comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in unitholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the REIT in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers LLP
Stantec Tower, 10220 103 Avenue NW, Suite 2200, Edmonton, Alberta, Canada T5J 0K4
T: +1 780 441 6700, F: +1 780 441 6776

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties *Refer to note 3 – Significant accounting policies, note 4 – Significant judgments and critical accounting estimates, note 7 – Investment properties and note 26 – Fair value measurement to the consolidated financial statements.* The REIT measures its investment properties at fair value and as at December 31, 2020, these assets were valued at $693 million. The fair values of investment properties are determined by management based on the accepted valuation methods of direct income capitalization or discounted future cash flows. Under the direct income capitalization method, fair values are determined by dividing the stabilized net operating income of the property by a property specific capitalization rate. Under the discounted future cash flows method, the forecasted future cash flows of each property are projected over ten years, a terminal value is applied and the cash flows are discounted using an appropriate discount rate. Investment properties were valued by Melcor Development Ltd.'s internal valuation team as at December 31, 2020 with the assistance of qualified external valuation professionals. At least once every two years, the valuations are performed by qualified external valuation professionals. The significant assumptions in the accepted valuation methods include stabilized net operating income, capitalization rates, discount rates, terminal capitalization rates and forecasted future cash flows, which involve assumptions of future rental income, estimated market rental rates, vacancy rates and estimated direct operating costs. In determining the fair value of investment properties, significant judgment is required by management. We considered this a key audit matter due to significant judgments made by management when determining the fair values of the investment	Our approach to addressing the matter involved the following procedures, among others: • Tested the design and operating effectiveness of internal controls related to the valuation of investment properties, including management's review of the significant assumptions used in the direct income capitalization method and discounted future cash flows method. • For a sample of investment properties, tested how management determined the fair value based on the accepted valuation methods of direct income capitalization or discounted future cash flows, which included the following: – Tested the underlying data used in the methods. – Evaluated whether stabilized net operating income and forecasted future cash flows, as appropriate, including assumptions related to future rental income and estimated direct operating costs, were reasonable considering the approved budget and the current and past performance of the property. – Professionals with specialized skill and knowledge in the field of real estate valuations assisted us in assessing the appropriateness of the methods and evaluating the reasonableness of the discount rates, capitalization rates, terminal capitalization rates, estimated market rental rates and vacancy rates.

Key audit matter	How our audit addressed the key audit matter
properties and a high degree of complexity in assessing audit evidence related to the significant assumptions made by management. In addition, the audit effort involved the use of professionals with specialized skill and knowledge in the field of real estate valuations.	

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the REIT's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the REIT or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the REIT’s financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the REIT’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the REIT’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the REIT to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the REIT to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Gordon R. Keiller.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Edmonton, Alberta
March 4, 2021

MELCOR REAL ESTATE INVESTMENT TRUST

Consolidated Financial Statements

December 31, 2020

Consolidated Statements of Financial Position

As at December 31

($000s)	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents	3,744	2,280
Accounts receivable	2,768	1,666
Other assets (note 8)	1,790	2,303
Loan receivable	—	900
	8,302	7,149
Non-Current Assets		
Investment properties (note 7 and 26)	692,991	753,483
Other assets (note 8)	23,301	22,729
Derivative financial asset (note 11 and 26)	64	173
	716,356	776,385
TOTAL ASSETS	724,658	783,534
LIABILITIES		
Current Liabilities		
Revolving credit facility (note 9)	9,986	22,864
Accounts payable	1,958	1,433
Distribution payable	875	1,646
Accrued liabilities and other payables (note 10 and 20)	8,518	9,670
Class C LP Units (note 12)	28,932	27,146
Mortgages payable (note 11)	50,269	23,507
	100,538	86,266
Non-Current Liabilities		
Accrued liabilities and other payables (note 10)	1,706	1,641
Class B LP Units (note 14 and 26)	77,884	130,936
Class C LP Units (note 12)	27,148	41,675
Mortgages payable (note 11)	262,728	268,113
Convertible debentures (note 13)	64,339	63,104
Derivative financial liabilities (note 26)	1,908	3,080
TOTAL LIABILITIES	536,251	594,815
UNITHOLDERS' EQUITY	188,407	188,719
TOTAL LIABILITIES AND UNITHOLDERS' EQUITY	724,658	783,534

See accompanying notes to the consolidated financial statements.

By order of the REIT's Board of Trustees

Carolyn Graham - Audit Committee Chair

Ralph Young - Chair

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

For the years ended December 31

($000s)	2020	2019
Rental revenue (note 16 and 20)	74,572	71,159
Direct operating expenses (note 20)	(31,240)	(28,772)
Net rental income	43,332	42,387
General and administrative expenses (note 20)	(3,043)	(2,868)
Fair value adjustment on investment properties (note 7 and 26)	(62,748)	(1,622)
Fair value adjustment on Class B LP Units (note 14 and 26)	53,052	(9,922)
Income before finance costs	30,593	27,975
Interest income	72	117
Finance costs (note 17 and 20)	(24,902)	(28,580)
Net finance costs	(24,830)	(28,463)
Net income (loss) and comprehensive income (loss)	5,763	(488)
Basic earnings (loss) per trust unit (note 19)	$0.44	($0.04)
Diluted loss per trust unit (note 19)	($1.38)	($0.04)

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Unitholders' Equity

As at December 31

($000s except unit amounts)	Number of Trust Units	Trust Units	Contributed Surplus	Retained Earnings	Total Unitholders' Equity
Balance at December 31, 2018	**13,186,797**	**118,819**	**40,536**	**39,005**	**198,360**
Trust units repurchased (note 15)	(53,504)	(528)	122	—	(406)
Issuance of Class B LP units (note 14)	—	—	135	—	135
Net loss for the year	—	—	—	(488)	(488)
Distributions to unitholders	—	—	—	(8,882)	(8,882)
Balance at December 31, 2019	**13,133,293**	**118,291**	**40,793**	**29,635**	**188,719**
Trust units repurchased (note 15)	**(82,790)**	**(818)**	**482**	**—**	**(336)**
Net income for the year	**—**	**—**	**—**	**5,763**	**5,763**
Distributions to unitholders	**—**	**—**	**—**	**(5,739)**	**(5,739)**
Balance at December 31, 2020	**13,050,503**	**117,473**	**41,275**	**29,659**	**188,407**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31

($000s)	2020	2019
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net income (loss) for the year	5,763	(488)
Non cash items:		
Amortization of tenant incentives (note 8 and 16)	3,779	3,541
Straight-line rent adjustments (note 16)	(655)	(628)
Fair value adjustment on investment properties (note 7 and 26)	62,748	1,622
Fair value adjustment on Class B LP Units (note 14 and 26)	(53,052)	9,922
Amortization of fair value adjustment on Class C LP Units (note 17)	(98)	(131)
Accretion on convertible debenture (note 17)	553	256
Fair value adjustment on derivative financial instruments (note 17)	(1,063)	789
Amortization of deferred financing fees (note 17)	1,167	1,499
	19,142	16,382
Payment of tenant incentives and direct leasing costs	(5,566)	(4,168)
Changes in operating assets and liabilities (note 3(n))	210	(2,905)
	13,786	9,309
INVESTING ACTIVITIES		
Additions to investment properties	—	(68,175)
Investment property improvements (note 7)	(1,473)	(2,517)
Proceeds on loan receivable	900	—
	(573)	(70,692)
FINANCING ACTIVITIES		
Proceeds from issuing convertible debenture, net of costs (note 13)	—	44,275
Change in revolving credit facility	(13,025)	23,025
Proceeds from mortgages payable (note 11)	32,890	76,616
Repayment of mortgages payable	(12,548)	(44,418)
Repayment on Class C LP Units	(12,643)	(3,628)
Issuance of Class B LP Units	—	10,000
Units repurchased (note 15)	(336)	(406)
Redemption of convertible debenture (note 13)	—	(34,500)
Distributions to unitholders	(6,087)	(8,882)
	(11,749)	62,082
INCREASE IN CASH & CASH EQUIVALENTS DURING THE YEAR	1,464	699
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	2,280	1,581
CASH AND CASH EQUIVALENTS, END OF THE YEAR	3,744	2,280

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In $000s except unit and per unit amounts)

1. DESCRIPTION OF THE TRUST

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

The principal business of the REIT is to acquire, own and manage office, retail and industrial properties in select markets across Western Canada. The REIT is externally managed, administered and operated by Melcor Developments Ltd. ("Melcor") pursuant to the Property Management Agreement and Asset Management Agreement (see note 20).

As at March 4, 2021, Melcor, through an affiliate, holds an approximate 55.3% effective interest in the REIT through ownership of all Class B LP Units of Melcor REIT Limited Partnership (the "Partnership") and is the ultimate controlling party.

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

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

These consolidated financial statements are presented in Canadian dollars, which is the presentation and functional currency of the REIT; and were authorized for issue by the Board of Trustees on March 4, 2021.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

a) Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention, except for investment properties, Class B LP Units and derivative financial instruments which are measured at fair value.

We prepare our consolidated financial statements in conformity with IFRS which requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. Changes in assumptions may have a significant impact on the consolidated financial statements in the period the assumptions change. We believe that the underlying assumptions are appropriate. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

b) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the REIT. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. These consolidated financial statements include the accounts of the REIT and its subsidiaries, its controlled partnership Melcor REIT Limited Partnership (the “Partnership”), and its general partner, Melcor REIT GP Inc.

Joint arrangements

These arrangements are undivided interests in the assets, liabilities, revenues and expenses under arrangement and we record our proportionate share in accordance with the agreements as joint operations. These consolidated financial statements include investments in three joint arrangements (2019 – three) with 50% interests. Refer to note 21 for additional details on our joint arrangements.

All intercompany transactions and balances are eliminated on consolidation.

c) Cash and cash equivalents

Cash and cash equivalents are comprised of cash and short-term deposits with maturity dates of less than three months from the date they were acquired.

d) Investment properties

Investment properties include office, retail and industrial properties, and a manufactured home community held for the long term to earn rental income or for capital appreciation, or both. It also includes property under development for future use as investment properties.

Acquired investment properties are measured initially at cost, including transaction costs associated with the acquisition when the acquisition is accounted for as an asset purchase. Costs capitalized to properties under development include direct development and construction costs, borrowing costs, and property taxes.

After initial recognition, investment properties are recorded at fair value, determined based on the accepted valuation methods of direct income capitalization or discounted future cash flows.

The REIT's management company, Melcor Developments Ltd. ("Melcor") is responsible for determining the fair value of investment properties quarterly. Melcor has an internal valuation team consisting of individuals who are knowledgeable and have experience in the fair value techniques applied in valuing investment property. At least once every two years, the valuations are performed by qualified external valuators who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment properties being valued. The quarterly valuations, including significant assumptions, are reviewed by the REIT's Chief Executive Officer and Chief Financial Officer and are discussed with the REIT's Audit Committee prior to being finalized.

Changes in fair value are recognized in the consolidated statements of income and comprehensive income in the period in which they arise.

Fair value measurement of an investment property under development is only applied if the fair value is considered to be reliably measurable. In rare circumstances, investment property under development is carried at cost until its fair value becomes reliably measurable. It may sometimes be difficult to determine reliably the fair value of an investment property under development. In order to evaluate whether the fair value of an investment property under development can be determined reliably, management considers the following factors, among others:

- the provisions of the construction contract;
- the stage of completion;
- whether the project or property is standard (typical for the market) or non-standard;
- the level of reliability of cash inflows after completion;
- the development risk specific to the property;
- past experience with similar construction; and
- status of construction permits.

Subsequent expenditures are capitalized to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the REIT and the cost of the item can be measured reliably. All repairs and maintenance costs are expensed when incurred.

Initial direct leasing costs incurred in negotiating and arranging tenant leases are added to the carrying amount of investment properties. All direct leasing costs are external expenditures, including those charged under the Property Management Agreement with Melcor (note 20), and no amounts for internal allocations are capitalized with respect to the negotiation or arranging of tenant leases.

e) Other assets

Other assets include prepaid expenses, deposits, straight-line rent adjustments and tenant incentives incurred in respect of new or renewed leases. Tenant incentives are amortized on a straight-line basis over the lease term and are recorded as a reduction of revenue.

f) Provision for decommissioning obligation

Decommissioning obligations are measured at the present value of the expected cost to settle the obligation. A corresponding decommissioning cost is added to the carrying amount of the associated investment property. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows as well as any changes in the discount rate. Actual costs incurred upon settlement of the decommissioning obligation are recorded against the provision.

g) Class B LP Units

The Class B LP Units are exchangeable into trust units at the option of the holder and, therefore, are considered a puttable instrument in accordance with International Accounting Standard (''IAS'') 32, Financial instruments — presentation (''IAS 32''). The Class B LP Units, as puttable instruments, are required to be accounted for as financial liabilities. The Class B LP Units are designated as fair value through profit or loss financial liabilities and are remeasured to fair value at each period end date based on the trading price of the trust units at the period end date with any changes in fair value recognized in the consolidated statements of income and comprehensive income. Distributions declared on Class B LP Units are recorded as finance costs in the consolidated statement of income and comprehensive income.

h) Unit capital

The trust units are redeemable at the option of the holders and, therefore, are considered a puttable instrument in accordance with IAS 32. Puttable instruments are required to be accounted for as financial liabilities, except where certain conditions are met in accordance with IAS 32, in which case, the puttable instruments may be presented as equity. The trust units meet the conditions of IAS 32 and are, therefore, classified and accounted for as equity.

i) Distributions

Distributions to unitholders are recognized as a liability in the period in which the distributions are approved by the Board of Trustees and are recorded as a reduction of retained earnings.

j) Recognition of revenue

Tenant leases are accounted for as operating leases given that we have retained substantially all of the risks and benefits of the ownership of our investment properties.

Rental revenues include both lease revenue and service revenue components. Lease revenues from investment properties include base rents, recoveries of operating expenses including property taxes, parking revenue, incidental income and sign and storage lease revenue. Revenue recognition under a lease commences when the tenant has a right to use the leased asset. The total amount of contractual rent to be received from the operating leases is recognized on a straight line basis over the term of the lease; a straight line rent receivable which is included in other assets, is recorded for the difference between the rental revenue recognized and the contractual amount received. When incentives are provided to our tenants, the cost of these incentives is recognized over the lease term, on a straight line basis as a reduction to rental
revenue.

Service revenues are amounts outlined separately in the lease agreement for distinct services provided including utilities, maintenance and security recoveries from tenants which are recognized on a monthly basis in the period in which the corresponding costs are incurred and performance obligations are completed.

k) Finance costs

Finance costs are comprised of interest expense on mortgages, interest and other finance fees on our revolving credit facility, interest on Class C LP Units, amortization of fair value adjustment on Class C LP Units, distributions on Class B LP Units, interest on convertible debentures, accretion on convertible debentures, fair value adjustment on derivative financial instruments and amortization of deferred financing fees. Borrowing costs are recognized in income using the effective interest rate method.

l) Income taxes

The REIT qualifies as a mutual fund trust within the meaning of the Income Tax Act (Canada) ("Tax Act") and as a real estate investment trust eligible for the 'REIT Exception', as defined in the rules applicable to Specified Investment Flow-Through ("SIFT") trusts and partnerships in the Tax Act. We expect to allocate all taxable income and to continue to qualify for the REIT Exception. Accordingly, no income tax expense or deferred income tax assets or liabilities have been recorded in these consolidated financial statements subsequent to the formation of the REIT.

m) Financial instruments

At initial recognition, we classify our financial instruments in the following categories depending on the purpose for which the instruments were acquired:

Financial assets

Financial assets that are held for collection of contractual cash flows represent solely payments of principal and interest are measured at amortized cost. This includes cash and cash equivalents, accounts receivable and loan receivable. Financial assets are initially recognized at fair value plus transaction costs, adjusted for an expected credit loss.

Subsequent to initial recognition, receivables are measured at amortized cost using the effective interest rate method adjusted for expected credit losses. For financial assets, the REIT applies the simplified expected credit loss approach, which requires expected lifetime losses to be recognized from initial recognition.

Financial liabilities

We record our financial liabilities at fair value on initial recognition. Subsequently, financial liabilities are measured at amortized cost using the effective interest rate method and financial liabilities designated as fair value through profit or loss ("FVTPL") are remeasured at fair value with changes in their fair value recorded through income. Financial liabilities measured at amortized cost include the revolving credit facility, accounts payable, distribution payable, mortgages payable, and Class C LP Units. Class B LP Units are classified as FVTPL.

Compound financial instrument

Our compound financial instrument is comprised of convertible debentures that can be converted to trust units at the option of the holder, and the number of units to be issued does not vary with changes in their fair value. We also have the ability to redeem the debentures at a price equal to the principal amount thereof plus accrued and unpaid interest. We also have the ability to convert the debentures into trust units; however, the number of units to be issued at conversion varies with the market price of the units.

On initial recognition, convertible debentures are separated into two financial liability components: the host instrument and the conversion feature. The conversion feature is required to be presented as a financial liability as the feature permits the holder to convert the debenture into trust units that, except for the available exemption under IAS 32, would normally be presented as a liability due to their redemption feature. Both components are measured based on their respective estimated fair values at the date of issuance. The host instrument financial liability is recognized initially at the fair value of a similar liability that does not have a conversion feature. The conversion feature is recognized at fair value. The fair value of the host instrument is recorded net of any related transaction costs.

Subsequent to initial recognition, the host instrument is measured at amortized cost using the effective interest method. The conversion feature derivative of the convertible debenture is classified as FVTPL and measured at fair value.

Financial derivatives

Our financial derivatives are comprised of the conversion features on our convertible debentures and interest rate swap on two of our mortgages. Derivatives are initially recognized at fair value on the date a derivative contract is entered into and subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

Derivative instruments are recorded in the consolidated statement of financial position at their fair value. Changes in fair value of derivative instruments that are not designated as hedges for accounting purposes are recognized in the consolidated statement of income and comprehensive income.

The REIT has not designated any derivatives as hedges for accounting purposes.

n) Statements of cash flows

Operating assets and liabilities is defined as the net change of accounts receivable, prepaid expense, and other, accounts payable, distribution payable, accrued liabilities and other payables, deferred interest payments and deferred finance fees capitalized during the year. Excluded from operating assets and liabilities are investment property additions and tenant incentive payments that are unpaid and included in accounts payable at year end.

4. SIGNIFICANT JUDGMENTS AND CRITICAL ACCOUNTING ESTIMATES

Estimates and judgments are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors.

Significant judgments

In the process of applying our accounting policies, we make various judgments, apart from those involving estimations, that can significantly impact the amounts recognized in the consolidated financial statements. These include:

a) Investment properties

Our accounting policies related to investment properties are described in note 3(d). In applying this policy, judgment is required in determining whether certain costs are additions to the carrying amount of an investment property.

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

b) Classification of tenant incentives

Payments are often made to, or on behalf of, tenants of our commercial properties when new leases are signed. When the payments add future value to the space independent of the lease in place, such costs are capitalized to the investment property. If the costs incurred are specific to the lessee, and do not have stand-alone value, these costs are treated as tenant incentives and amortized on a straight-line basis to revenue over the lease term in accordance with IFRS 16, Leases.

c) Compliance with REIT exemption under ITA

Under current tax legislation, a real estate investment trust is not liable for Canadian income taxes provided that its taxable income is fully allocated to unitholders during the year. In order to continue to be taxed as a mutual fund trust, we need to maintain our REIT status. At inception, we qualify as a REIT under the specified investment flow-through ("SIFT") rules in the Income Tax Act (Canada). The REIT's current and continuing qualification as a REIT depends on our ability to meet the various requirements imposed under the SIFT rules, which relate to matters such as our organizational structure and the nature of our assets and revenues. We apply judgment in determining whether we continue to qualify as a REIT under the SIFT rules. Should we cease to qualify, we would be subject to income tax on our earnings and would reflect current and deferred tax balances on our consolidated financial statements.

Critical accounting estimates

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. The estimates and assumptions that are critical to the determination of the amounts reported in the consolidated financial statements relate to the following:

a) Valuation of investment properties

The fair value of investment properties is dependent on stabilized net operating income or forecasted future cash flows and property specific capitalization or discount rates. The stabilized net operating income or forecasted future cash flows involve assumptions of future rental income, including estimated market rental rates and vacancy rates, estimated direct operating costs and estimated capital expenditures. Capitalization and discount rates take into account the location, size and quality of the property, as well as market data at the valuation date. The significant economic uncertainty resulting from COVID-19 has impacted the availability of reliable market metrics. Accordingly, the REIT has made estimates of stabilized net operating income or forecasted future cash flows and capitalization and discount rates based on the best information available. The impact of COVID-19 will continue to be considered and monitored when determining the fair value of investment properties. Due to the uncertainty of the situation, estimates could be subject to changes and such changes may be material. Refer to note 7 and 26 for further information about methods and assumptions used in determining fair value.

5. NEW STANDARDS

NEW AND AMENDED STANDARDS ADOPTED

We have adopted the following new standard interpretation effective January 1, 2020.

IFRS 3, Business combinations amendments were made to IFRS 3, Business combinations in order to clarify that obtaining control of a business that is a joint operation is a business combination achieved in stages. Amendments to IFRS 3 are effective for annual periods beginning on or after January 1, 2020.

Impact of adoption

The adoption of IFRS 3 did not result in any adjustments upon transition, change in recognition, additional disclosures or changes to our accounting policy.

NEW AND AMENDED STANDARDS NOT YET ADOPTED

IAS 37, Provisions, contingent liabilities and contingent assets amendments were made to IAS 37, Provisions, contingent liabilities and contingent assets in order to clarify (i) the meaning of "costs to fulfil a contract", and (ii) that, before a separate provision for an onerous contract is established, an entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

IAS 37 is required to be applied for annual periods beginning on or after January 1, 2022. We are currently evaluating the impact of this standard on our financial statements.

IAS 1, Presentation of financial statements amendments were made to IAS 1, Presentation of financial statements in order to clarify how to classify debt and other liabilities as either current or non-current.

IAS 1 is required to be applied for annual periods beginning on or after January 1, 2023. We are currently evaluating the impact of this standard on our financial statements.

6. INVESTMENT PROPERTY ACQUISITIONS

On November 12, 2019 the REIT purchased a 283,235 sf regional shopping centre in Grande Prairie, Alberta ("Grande Prairie Acquisition") for $55,570 (including transaction costs). The acquisition was satisfied with cash raised through the issuance of 1,225,822 Class B LP Units to Melcor Developments Ltd. for total consideration of $10,000 (note 14) and through the issuance of $46,000 in unsecured convertible debentures "the 2019 Debentures" (note 13).

On April 24, 2019 we purchased a retail investment property in Calgary, Alberta from a third party for a purchase price of $12,605 (including transaction costs).

The purchase price of these acquisitions approximates fair market value at the acquisition date and in accordance with our policy, have been accounted for as asset purchases.

7. INVESTMENT PROPERTIES

($000s)	**2020**	**2019**
Balance - beginning of year	**753,483**	683,768
Additions		
Direct acquisition	**—**	68,175
Property improvements	**1,473**	2,517
Direct leasing costs	**783**	645
Fair value adjustment on investment properties (note 26)	**(62,748)**	(1,622)
Balance - end of year	**692,991**	753,483

In accordance with our policy, as detailed in note 3(d), we record our investment properties at fair value. Fair value adjustments on investment properties are primarily driven by changes in capitalization rates and stabilized net operating income ("NOI"). Due to the uncertainty of the economic environment as a result of COVID-19, fair value estimates could be subject to significant changes and such changes could be material. During the year ended December 31, 2020, all investment properties were valued by qualified independent external valuation professionals. Supplemental information on fair value measurement, including valuation techniques and significant assumptions, is included in note 26.

Presented separately from investment properties is $15,633 (December 31, 2019 - $15,716) in tenant incentives and $7,668 (December 31, 2019 - $7,013) in straight-line rent adjustments (note 8). The fair value of investment properties has been reduced by these amounts.

Our investment properties are leased to tenants primarily under long term operating leases. Rent is receivable from tenants monthly. Minimum lease payments under non-cancellable operating leases of investment properties are receivable as follows:

($000s)	**2020**	**2019**
Within one year	**46,364**	46,424
Later than one year but not later than 2 years	**42,214**	42,927
Later than 2 years but not later than 3 years	**35,458**	37,641
Later than 3 years but not later than 4 years	**28,346**	30,944
Later than 4 years but not later than 5 years	**21,341**	23,430
Later than 5 years	**55,732**	63,924
	229,455	245,290

8. OTHER ASSETS

($000s)	**2020**	**2019**
Current Assets		
Prepaid expense, and other	**1,790**	2,303
Non-Current Assets		
Straight-line rent adjustments	**7,668**	7,013
Tenant incentives	**15,633**	15,716
	23,301	22,729

During the year we recorded tenant incentives of $3,696 (December 31, 2019 - $5,071) and $3,779 (December 31, 2019 - $3,541) of amortization expense respectively.

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

9. REVOLVING CREDIT FACILITY

Under the terms of the credit facility the REIT maintains an available credit limit based upon the carrying value of specific investment properties to a maximum of $35,000 for general corporate purposes and acquisitions, including a $5,000 swingline sub-facility. An additional $10,000 is available by way of an accordion feature, subject to lender approval. Depending on the form under which the new 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 $5,000 in available letters of credit which bear interest at 2.25%. Interest payments are due and payable based upon the form of the facility drawn upon, and principal is due and payable upon maturity. The agreement also bears a standby fee of 0.45% for the unused portion of the new 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 new facility. The facility matures June 1, 2021.

As at December 31, 2020, the carrying value of pledged properties was $61,804 (December 31, 2019 - $67,502).

As at December 31, 2020 we had $9,986 (December 31, 2019 - $22,864) drawn from the facility (net of unamortized transaction fees and unamortized discount on bankers acceptance); and posted letters of credit of $nil (December 31, 2019 - $150).

($000s)	2020	2019
Amount drawn on facility	10,000	23,025
Unamortized transaction fees	(14)	(63)
Unamortized discount on bankers acceptance	—	(98)
	9,986	22,864

10. ACCRUED LIABILITIES AND OTHER PAYABLES

($000s)	2020	2019
Current Liabilities		
Tenant security deposits and pre-payments	3,097	3,213
Accrued finance costs	765	739
Other accrued liabilities and payables	4,656	5,718
	8,518	9,670
Non-Current Liabilities		
Decommissioning obligation	1,706	1,641

The REIT's decommissioning obligation relates to one of our commercial properties. The total decommissioning obligation is estimated based on the future obligation and timing of these expenditures to be incurred. We estimate the net present value of the obligation based on an undiscounted total future provision of $2,014 (December 31, 2019 - $2,014). At December 31, 2020, a discount rate of 4.00% (December 31, 2019 - 4.00%) and an inflation rate of 2.00% (December 31, 2019 - 2.00%) were used to calculate the net present value of the obligation. Due to uncertainty surrounding the nature and timing of this obligation amounts are subject to change.

11. MORTGAGES PAYABLE

($000s)	2020	2019
Mortgages amortized over 15-25 years at fixed interest rates	293,695	276,745
Mortgages amortized over 25 years at a fixed interest rate (via floating for fixed interest rate swaps)	20,443	16,520
Mortgage with interest only payments at floating interest rate of prime plus 1%	440	—
Unamortized deferred financing fees	(1,581)	(1,645)
	312,997	291,620
Current portion of mortgages payable	(50,269)	(23,507)
	262,728	268,113
Interest rate ranges	(2.58%-4.20%)	(2.58%-4.91%)

Specific investment properties with a carrying value of $534,602 (December 31, 2019 - $537,289) and assignment of applicable rents and insurance proceeds have been pledged as collateral for the above mortgages. The weighted average effective interest rate for the above mortgages, based on period end balances, is 3.42% (December 31, 2019 – 3.50%).

The minimum contractual principal payments due within each of the next five years and thereafter are as follows:

($000s)	Principal Installment Repayments	Balance Maturing	Total
2021	9,251	41,018	50,269
2022	8,301	26,578	34,879
2023	7,452	36,408	43,860
2024	6,448	38,254	44,702
2025	4,839	21,059	25,898
Thereafter	16,336	98,634	114,970
	52,627	261,951	314,578

(In $000s except unit and per unit amounts)

We have floating for fixed interest rate swaps which fixes the interest rate on our variable rate mortgages at 2.97% and 3.04% for the term of the mortgages. As at December 31, 2020 the fair value of the interest rate swap contract in an asset position is $64 and the fair value of the interest rate sap contract in a liability position is $37 (2019 - $173 asset position). This financial instrument has not been designated as a hedge for accounting purposes. Supplemental information on fair value measurement, including valuation technique and key inputs, is included in note 26.

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

($000s)	**2020**	**2019**
Balance at January 1,	**291,620**	259,586
Principal repayments:		
Scheduled amortization on mortgages	**(7,077)**	(7,700)
Mortgage repayments	**(5,471)**	(36,718)
New mortgages	**32,890**	76,616
Mortgage interest payments deferred	**971**	—
Deferred financing fees capitalized	**(281)**	(626)
Amortization of deferred financing fees	**345**	462
Balance at December 31,	**312,997**	291,620

During the year ended December 31, 2020, the REIT entered into mortgage amending agreements with various lenders in order to obtain temporary payment relief as a result of COVID-19. As at December 31, 2020, mortgage amending agreements had been entered into related to twenty-three mortgages with an outstanding principal balance of $230,228. The terms of the agreements vary by lender and mortgage, providing the REIT with relief of scheduled principal and interest payments or provision of interest only payments for a specified period of time. Deferred payments are subject to interest and repayable over a term up to the remaining term of the mortgage. No changes were made as to the maturity date, interest rate, amortization period or security provided. The REIT has accounted for these agreements as debt modifications, with the impact of these modifications being insignificant. All deferral periods have terminated, and regular repayments have resumed.

12. CLASS C LP UNITS

On closing of the IPO, Melcor retained the debt on certain Initial Properties (the “Retained Debt”), with an outstanding principal balance of $94,544 at April 30, 2013. The Class C LP Units were initially recognized at their fair value of $96,506. The fair value of the Class C LP Units was determined based upon future payments at market interest rates. In consideration of the Retained Debt, Melcor received 9,454,411 Class C LP Units of Melcor REIT Limited Partnership (the “Partnership”), a subsidiary of the REIT, on which priority distributions are made to permit Melcor to satisfy required principal and interest payments. The Class C LP Units are classified as debt and a portion of the distributions are recognized as finance costs.

During the year ended December 31, 2020, the REIT entered into amending mortgage agreements with various financial institutions, including those encumbered by Class C LP Units. These amendments had been entered into in order to provide the REIT with temporary relief periods related to the principal payments on these Class C LP Units in an effort to conserve cash. These amendments resulted in a period of time in which the REIT was not required to make principal payments, but the term and interest rate related to the mortgage did not change. Deferred payments are subject to interest and repayable over the remaining term of the mortgage. The REIT has accounted for these agreements as debt modifications, with the impact of these modifications being insignificant.

As at December 31, 2020 the carrying value of the Class C LP Units, included in the consolidated statement of financial position, were as follows:

($000s)	**2020**	**2019**
Class C LP Units amortized over 15-25 years at fixed interest rates	**56,080**	68,723
Unamortized fair value adjustment	**—**	98
	56,080	68,821
Current portion of Class C LP Units	**(28,932)**	(27,146)
	27,148	41,675
Effective interest rate	**3.30 %**	3.40 %

(In $000s except unit and per unit amounts)

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

($000s)	2020	2019
Balance at January 1,	**68,821**	72,580
Principal repayments:		
Scheduled amortization on Class C LP Units	**(2,909)**	(3,628)
Class C LP Units repayments	**(9,734)**	—
Amortization of fair value adjustment on Class C LP Units (note 17)	**(98)**	(131)
Balance at December 31,	**56,080**	68,821

As at December 31, 2020 we had 10,785,613 Class C LP Units issued and outstanding (December 31, 2019 - 10,785,613).

During the year the REIT repaid the maturing balances of 1,432,330 Class C LP units with a carrying value of $9,734.

Specific investment properties with a carrying value of $91,995 (December 31, 2019 - $135,479) and assignment of applicable rents and insurance proceeds have been pledged as collateral for the above Class C LP Units, along with a guarantee by the Partnership.

The minimum contractual principal payments due within each of the next five years and thereafter are as follows:

($000s)	Principal Installment Repayments	Balance Maturing	Total
2021	1,418	27,514	**28,932**
2022	1,095	—	**1,095**
2023	667	14,265	**14,932**
2024	451	—	**451**
2025	467	—	**467**
Thereafter	483	9,720	**10,203**
	4,581	51,499	**56,080**

During the year $2,270 (2019 - $2,385) was recognized in finance costs (note 17).

13. CONVERTIBLE DEBENTURES

On October 29, 2019, the REIT issued a 5.10% extendible convertible unsecured subordinated debentures (the "2019 Debentures") to the public for gross proceeds of $46,000, including $6,000 issued pursuant to the exercise of an over-allotment option. Underwriter costs related to the issuance were $1,725 for net proceeds of $44,275. Additional transaction costs on the issuance were $548.

The principal amount outstanding and the carrying value for the REIT's convertible debentures are as follows:

($000s) except amounts stated in units					December 31, 2020		December 31, 2019
Convertible Debentures	**Date Issued**	**Maturity Date**	**Conversion rate in units***	**Interest Rate**	**Outstanding Principal**	**Carrying Value**	Carrying Value
2017 Debentures	Dec 21, 2017	Dec 31, 2022	86.9565	5.25 %	**23,000**	**22,007**	21,561
2019 Debentures	Oct 29, 2019	Dec 31, 2024	112.3596	5.10 %	**46,000**	**42,332**	41,543
					69,000	**64,339**	63,104

*The conversion rate is the number of trust units per one thousand principal amount of convertible debentures.

As compound financial instruments, the fair value of the host instrument components were calculated using a market interest rate for an equivalent non-convertible, non-extendible bond. The conversion feature components are recognized at fair value and presented as a liability.

A reconciliation of the convertible debentures are as follows:

($000s)	Host Instruments	Conversion Features	Total
Balance at December 31, 2018	55,017	187	55,204
Convertible debenture issued	43,686	2,314	46,000
Transaction costs	(2,273)	—	(2,273)
Fair value adjustment on conversion features (note 26)	—	579	579
Amortization of discount and transaction costs	918	—	918
Accretion on convertible debenture	256	—	256
2014 Debenture redeemed	(34,500)	—	(34,500)
Balance at December 31, 2019	63,104	3,080	66,184
Fair value adjustment on conversion features (note 26)	—	(1,209)	(1,209)
Amortization of discount and transaction costs	682	—	682
Accretion on convertible debenture	553	—	553
Balance at December 31, 2020	64,339	1,871	66,210

During the year $3,554 of interest expense was recognized in finance costs (note 17) (2019 - $3,455).

At December 31, 2020 we remeasured the conversion feature to fair value resulting in a fair value gain of $1,209 (2019 - loss of $579). Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 26.

14. CLASS B LP UNITS

Melcor, through an affiliate, holds an approximate 55.3% effective interest in the REIT through ownership of all Class B LP Units of the Partnership and is the ultimate controlling party. The Class B LP Units are exchangeable at the option of the holder for one trust unit of the REIT and accompanied by one special voting unit (note 15(b)). Distributions on Class B LP Units are recorded and paid to holders equal to those declared on trust units.

Distributions on Class B LP Units for the year were $7,075 (2019 - $10,195), and are included in finance costs (note 17).

In accordance with our policy, as detailed in note 3(g), we record Class B LP Units at fair value. We remeasured the Class B LP Units at December 31, 2020 and recognized a fair value gain of $53,052 during the year (2019 - fair value loss of $9,922). Supplemental information on fair value measurement, including valuation technique and the key input, is included in note 26.

On November 11, 2019 the REIT issued 1,225,822 Class B LP Units at $8.16 or $10,000 as partial consideration for the Grande Prairie Acquisition (note 6). As at the adjustment date the fair value of the units issued was $8.05 per unit, or $9,865; the $135 difference between book value and fair value was recorded to contributed surplus.

The following table summarizes the change in Class B LP Units for the year.

	2020		2019	
($000s except unit amounts)	Units	$ Amount	Units	$ Amount
Balance - beginning of year	16,125,147	130,936	14,899,325	111,149
Issuance of Class B LP Units	—	—	1,225,822	9,865
Fair value adjustment on Class B LP Units (note 26)	—	(53,052)	—	9,922
Balance - end of year	16,125,147	77,884	16,125,147	130,936

At December 31, 2020 there were 16,125,147 Class B LP Units issued and outstanding at a fair value of $4.83 per unit or $77,884 (December 31, 2019 - 16,125,147 Class B LP Units issued and outstanding at a fair value of $8.12 per unit or $130,936). The REIT notes that it is currently not possible to estimate the long-term impact that COVID-19 will have on the economy, including the equity markets. As the valuation of the Class B LP Units is dependent on the trading price of the trust units, the impact on the valuation of the Class B LP Units cannot be estimated at this time and such impact could be material.

(In $000s except unit and per unit amounts)

15. UNITHOLDERS' EQUITY

a) Trust Units

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 the Unitholders and to participate pro rata in any distributions by the REIT.

Unitholders are entitled to demand, at any time, the REIT to redeem all or part of the trust units at a "Redemption Price" as defined in the REIT's DOT. Upon receipt of notice to redeem trust units, the Unitholder surrenders all rights to and under the units tendered for redemption.

b) Special Voting Units

Pursuant to the DOT, special voting units have no economic entitlement in the REIT or in the distributions or assets of the REIT but entitle the holder to one vote per special voting unit at any meeting of the Unitholders. Special voting units may only be issued in connection with or in relation to securities exchangeable into Units, including Class B LP Units, for the purpose of providing voting rights with respect to the REIT to the holders of such securities. Special voting units will not be transferable separately from the exchangeable securities to which they are attached and will be automatically transferred upon the transfer of such exchangeable securities.

c) Units Outstanding

On April 1, 2020 we commenced a normal course issuer bid ("2020 NCIB") which allows the REIT to purchase up to 655,792 trust units for cancellation, representing approximately 5% of the REIT's issued and outstanding trust units. The trust units may be repurchased up to a maximum daily limit of 3,207. The price which the REIT will pay for trust units repurchased under the plan will be the market price at the time of acquisition. The NCIB ends one year from commencement, on March 31, 2021.

In connection with the commencement of the NCIBs, the REIT also entered into an automatic purchase plan agreement with a broker to allow for the purchase of trust units under the NCIB at times when the REIT ordinarily would not be active in the market due to regulatory restrictions or self-imposed trading blackout periods. This plan was cancelled during 2020 in order to conserve cash as a response to COVID-19.

On April 1, 2019 we commenced a normal course issuer bid ("2019 NCIB") which allows the REIT to purchase up to 659,339 trust units for cancellation, representing approximately 5% of the REIT's issued and outstanding trust units. The trust units may be repurchase up to a maximum daily limit of 2,908. The price which the REIT will pay for trust units repurchased under the plan will be the market price at the time of acquisition. The NCIB ended one year from commencement on March 31, 2020.

During the year the REIT purchased a total of 82,790 units for cancellation (2019 - 53,504 units) pursuant to the above NCIBs at a cost of $336 (2019 - $406), for the year ended December 31, 2020. Trust units were reduced by $818 (2019 - $528) and contributed surplus increased by $482 (2019 - $122).

Issued and outstanding trust units at December 31, 2020 are 13,050,503 (December 31, 2019 - 13,133,293).

(Units)	**2020**	**2019**
Balance, beginning of year	**13,133,293**	13,186,797
Repurchase of trust units	**(82,790)**	(53,504)
Balance, end of year	**13,050,503**	**13,133,293**

16. RENTAL REVENUE

The components of rental revenue are as follows:

For the years ended December 31 ($000s)	**2020**	**2019**
Lease revenue	**50,985**	47,738
Variable lease revenue	**13,681**	13,444
Service revenue	**13,030**	12,890
Amortization of tenant incentives (note 8)	**(3,779)**	(3,541)
Straight-line adjustments	**655**	628
	74,572	71,159

As a result of COVID-19 and the direct impact on many of the REIT's tenants, the REIT has proactively engaged with lessees in order to provide temporary relief. The amount and duration of relief provided is dependent on the tenant's situation and includes full or partial deferral of lease payments for periods of one to four months or on a month to month basis. Deferred amounts remain owing and are repayable over a fixed term. During the year ended December 31, 2020, the government announced the Canada Emergency Commercial Rent Assistance (CECRA) for small businesses. The program provided forgivable loans to qualifying commercial property owners to cover up to 50% of six monthly rent payments that are payable by eligible small business tenants, requiring the landlord to forgive at least 25% of rent covered by the application, with the tenant paying the balance. Participation in this program by the REIT has resulted in rent payments forgiven of $706 recorded in direct operating expenses for the year ended December 31, 2020.

17. FINANCE COSTS

The components of finance costs are as follows:

For the years ended December 31 ($000s)	**2020**	**2019**
Interest on mortgages payable and revolving credit facility	**11,346**	10,001
Interest on Class C LP Units	**2,368**	2,516
Amortization of fair value adjustments on Class C LP Units	**(98)**	(131)
Distributions on Class B LP Units	**7,075**	10,195
Interest on convertible debentures	**3,554**	3,455
Accretion on convertible debentures	**553**	256
Fair value adjustment on derivative financial instruments	**(1,063)**	789
Amortization of deferred financing fees	**1,167**	1,499
	24,902	28,580

Total finance costs paid during the year were $24,883 (2019 - $26,019).

18. INCOME TAXES

As at December 31, 2020 the REIT qualifies as a mutual fund trust within the meaning of the Tax Act and as a real estate investment trust eligible for the 'REIT Exception' under the Specified Investment Flow-Through ("SIFT"); 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.

Reconciliation of income tax expense based on the statutory rate to the recovery recorded using the effective tax rate is as follows:

For the years ended December 31 ($000s)	**2020**	**2019**
Net income (loss)	**5,763**	(488)
Statutory rate	**24 %**	27 %
	1,383	(132)
Non-deductible expenses	**—**	1
Non-taxable portion of capital gains and fair value adjustments	**7,534**	210
Allocation of taxable loss to unitholders (note 3(l))	**(8,917)**	(79)
	—	—

19. INCOME (LOSS) PER UNIT

Basic and diluted (loss) earnings per trust unit for the year are calculated as follows:

($000s except unit amounts)	**2020**	**2019**
Net income (loss) - basic	**5,763**	(488)
Impact of Class B LP unit fair value adjustment and distributions	**(45,976)**	—
Impact of convertible debentures interest, fair value adjustment, amortization and accretion	**—**	—
Net loss - diluted	**(40,213)**	(488)
Basic weighted average trust units outstanding	**13,074,444**	13,162,242
Impact of conversion of Class B LP Units	**16,125,147**	—
Impact of conversion of convertible debentures	**—**	—
Diluted weighted average trust units outstanding	**29,199,591**	13,162,242
Basic earnings (loss) per trust unit	**$0.44**	($0.04)
Diluted loss per trust unit*	**($1.38)**	($0.04)

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

20. RELATED PARTY TRANSACTIONS

The consolidated financial statements of the REIT include the following related party transactions with Melcor, and its affiliates, as the ultimate controlling party of the REIT:

a) Property and Asset Management Agreements

The REIT is externally managed, administered and operated by Melcor pursuant to the terms and conditions as set forth under the Property Management Agreement and Asset Management Agreement.

Asset Management Agreement – we pay a quarterly management fee which is comprised of the following: (a) a base annual management fee calculated and payable on a quarterly basis, equal to 0.25% of the REIT's gross book value; (b) a capital expenditures fee equal to 5% of all hard construction costs incurred on capital projects in excess of $0.10 million; (c) an acquisition fee equal to 0.50% - 1.00% of the purchase price; (d) a financing fee equal to 0.25% of the debt and equity of all financing transactions completed for the REIT to a maximum of actual expenses incurred by Melcor.

Property Management Agreement – we pay a monthly fee which is comprised of the following: (a) a base fee of 1/12 of 3% of gross property revenue, excluding amongst other things, lease termination fees and actual bad debt expense; (b) a leasing fee equal to 5% of aggregate base rent for new leases for the first 5 years and 2.5% thereafter, and 2.5% of aggregate base rent for lease renewals and expansions for the first 5 years.

Pursuant to the terms of the agreements the REIT incurred the following fees during the year:

For the year ended December 31 ($000s)	**2020**	**2019**
Asset Management Agreement		
Base Annual Management Fee	**1,916**	1,788
Acquisition Fee	**—**	673
Property Management Agreement		
Monthly Fee	**2,070**	2,058
Lease Fee	**770**	584
	4,756	5,103

The Base Annual Management Fee is included in general and administrative expenses. Monthly Fees are included in direct operating expenses. In accordance with our policy (3(d)), Acquisition Fees and Lease Fees are capitalized to investment properties. As at December 31, 2020 there was $662 payable to Melcor related to these fees (December 31, 2019 - $744) which is included in accrued liabilities and other payables.

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

During the year $7,075 in distributions were recorded on Class B LP Units held by Melcor (2019 - $10,195). These distributions were recorded as finance costs (note 17). As at December 31, 2020 there was $484 payable to Melcor for the December distribution (December 31, 2019 - $907) which is included in distribution payable.

Also during the year, Melcor, as holder of all Class C LP Units, was paid $5,277 to fund principal and interest payments on the Retained Debt (2019 - $6,144). These redemptions were recorded as a reduction of the Class C LP Unit liability and as finance costs (note 17). In addition, during the year the REIT repaid the maturing balances of 1,432,330 Class C LP units with a carrying value of $9,734.

c) Rental Revenue

During the year the REIT collected $958 in rental revenue from Melcor and an affiliate for use of office space (2019 - $880).

d) Key Management Remuneration

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

e) Issuance of Class B LP units

On November 12, 2019 as part of the Grande Prairie Acquisition (note 6), the REIT issued 1,225,822 Class B LP Units to Melcor Developments Ltd. for total consideration of $10,000 (note 14).

21. JOINT ARRANGEMENTS

The table below discloses our rights to and share of the assets, liabilities, revenues, and earnings of three joint arrangements (2019 – three) that are recorded in these consolidated financial statements:

	Interest
Capilano Investments Joint Venture	50%
Westmere Properties Joint Venture	50%
Watergrove Developments Joint Venture	50%

($000's)	Assets	Liabilities	Revenue	Earnings
For the year ended and as at December 31				
2020	**64,934**	**34,094**	**5,377**	**(769)**
2019	67,723	33,165	5,608	3,266

22. SEGMENTED INFORMATION

All the properties included in these consolidated financial statements are located in Western Canada, and are viewed by the Chief Operating Decision Maker (determined to be the Chief Executive Officer) as one operating segment in the context of these consolidated financial statements.

23. COMMITMENTS AND CONTINGENCIES

The REIT is contingently liable under guarantees that are issued in the normal course of business and with respect to litigation and claims that arise from time to time. In the opinion of management, any liability that may arise from such contingencies would not have a material adverse effect on the consolidated financial statements of the REIT.

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 $2,929 (2019 - $1,400).

The REIT retains a loan guarantee related to the mortgage transferred as part of a prior year property sale. As at December 31, 2020 the loan balance was $3,381 (2019 - $3,480).

24. MANAGEMENT OF CAPITAL RESOURCES

We define capital as unitholders' equity, Class B LP Units, Class C LP Units, mortgages payables and convertible debentures. Our objective when managing capital is to ensure sufficient funds are available to make unitholder distributions, support the growth of our assets, and finance capital requirements. Specifically, we plan to utilize a combination of short, medium and long-term debt financing that aligns with the characteristics of each property.

Pursuant to the DOT, the REIT 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% of Gross Book Value ("GBV") ("Degree of Leverage Ratio") (65% including any convertible debenture). At December 31, 2020, and throughout the period, we were in compliance with the Degree of Leverage Ratio.

We are also subject to financial covenants on our $35,000 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 $140,000. As at December 31, 2020, and throughout the period, we were in compliance with our financial covenants. We also have financial covenants on certain mortgages for investment properties. At December 31, 2020, and throughout the period, we were in compliance with our financial covenants on our mortgages. We prepare financial forecasts to monitor the changes in our debt and capital levels and our ability to meet our financial covenants.

25. FINANCIAL RISK MANAGEMENT

We are exposed to the following risks as a result of holding financial instruments:

a) Credit Risk

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

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

For our accounts receivable and loan receivable, we apply the simplified credit loss approach, which requires us to recognize lifetime expected credit losses for all accounts receivables and loan receivable balances by applying an expected loss rate based on historical credit losses adjusted for current and forward looking information which may affect the ability of the customers to settle receivables. Accounts receivables and loan receivable have been grouped based on shared credit risk characteristics.

At this time, based on current economic outlook and the unpredictable time-line impact of COVID-19, management has assessed the current expected credit loss at $802 (2019 - $162). Amounts receivable and related loss allowance are summarized as follows:

($000s)	**2020**	**2019**
Accounts receivable	**3,570**	1,828
Loss allowance	**(802)**	(162)
Accounts receivable, net	**2,768**	1,666
Loan receivable	**—**	900
Total amounts receivable, net	**2,768**	2,566

Bad debt expense recorded during the year was $1,041 (2019 - $199), with an additional $706 (2019 - n/a) in bad debts related to participation in the CECRA program. These amounts are included in direct operating expenses. Accounts receivables and loan receivables are written off when there is no reasonable expectation of recovery. Indicators that there are no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan, and failure to make contractual payments for a period of greater than 120 days past due.

b) Liquidity Risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due. We manage liquidity risk to ensure that we have sufficient liquid financial resources to finance operations, meet long-term mortgage repayments, Class C LP Unit redemptions, convertible debenture payments and make monthly distributions on Class B LP Units and trust units. We monitor rolling forecasts of our liquidity, which includes cash, on the basis of expected cash flows. In addition, we monitor balance sheet liquidity ratios against capital requirements and maintain on-going debt financing plans. We believe that we have access to sufficient capital through internally generated cash flows, external sources and undrawn committed borrowing facilities to meet current spending forecasts. We believe that based on the updated cash flows created in order to incorporate the effects of COVID-19 we have access to sufficient liquidity through internally generated cash flows, external sources and undrawn committed borrowing facilities to meet current spending forecasts.

To mitigate the risk associated with the refinancing of maturing debt, we stagger the maturity dates of our mortgage portfolio over a number of years. Further, to mitigate the risk associated with the economic uncertainty caused by COVID-19, the REIT entered into several amending agreements during the year to obtain relief periods in which payments of interest and principal were suspended temporarily. These relief periods did not change the terms of the mortgages and therefore the maturity dates will continue to be staggered in order to mitigate the risk associated with refinancing of matured debt.

Refer to notes 11, 12 and 13 for the maturity analysis of mortgages payable, Class C LP Units and convertible debentures. Amounts drawn under the revolving credit facility are due upon the maturity of the facility, on or before June 1, 2021. We expect to be able to renew our facility on maturity. Accounts payable are expected to be repaid in the next twelve months. Distributions declared on trust units and Class B LP Units are paid one month following the date of declaration.

c) Market Risk

We are subject to interest rate cash flow risk as our revolving credit facility bears interest at rates that vary in accordance with borrowing rates in Canada. For each 1% change in the rate of interest on our revolving credit facility, the change in annual finance costs is approximately $100 (December 31, 2019 - $229) based upon applicable period end debt balances. We are also subject to interest rate risk on refinancing of our fixed rate debts in the year of maturity. We are not subject to other significant market risks pertaining to our financial instruments, with the exception of Class B LP units.

26. FAIR VALUE MEASUREMENT

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

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

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

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

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

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

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

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

($000s)	Fair Value Hierarchy	December 31, 2020 Fair Value	Amortized Cost	Total Carrying Value	Total Fair Value	December 31, 2019 Total Carrying Value	Total Fair Value
Non-financial assets							
Investment properties	Level 3	692,991	—	692,991	692,991	753,483	753,483
Financial liabilities							
Mortgages payable	Level 3	—	312,997	312,997	315,531	291,620	296,828
Class B LP Units	Level 2	77,884	—	77,884	77,884	130,936	130,936
Class C LP Units	Level 3	—	56,080	56,080	56,080	68,821	68,821
Convertible debentures	Level 2	—	64,339	64,339	56,779	63,104	67,990
Derivative financial liability							
Interest rate swap	Level 3	37	—	37	37	—	—
Conversion features on convertible debentures	Level 3	1,871	—	1,871	1,871	3,080	3,080
Derivative financial asset							
Interest rate swap	Level 3	64	—	64	64	173	173

Investment properties

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

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

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

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

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

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

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

The REIT's management company, Melcor, lead by Melcor’s executive management team, is responsible for determining fair value measurements on a quarterly basis, including verifying all major inputs included in the valuation and reviewing the results. Melcor’s management, along with Melcor REIT Limited Partnership’s Audit Committee, discuss the valuation process and significant assumptions on a quarterly basis. At least once every two years, the valuations are performed by qualified external valuators who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.

Investment properties were valued by Melcor's internal valuation team as at December 31, 2020 with the assistance of qualified independent external valuation professionals of which 53 investment properties (of 53 legal phases valued) with a fair value of $716,292 (including amounts presented as tenant incentives and straight-line rent adjustments) were valued by qualified independent external valuation professionals during the year. Valuations performed during the year resulted in fair value losses of $62,748. During the year ended December 31, 2019 Melcor's internal valuation team valued investment properties of which 32 investment properties (of 53 legal phases valued) with a fair value of $444,700 (including amounts presented as tenant incentives and straight-line rent adjustments) were valued by qualified independent external valuation professionals during the year. Valuations performed during the year ended December 31, 2019 resulted in fair value losses of $1,622.

(In $000s except unit and per unit amounts)

Weighted average stabilized net operating income for investment properties is $1,613 (2019 - $1,719) per property. Other significant valuation metrics and unobservable inputs are set out in the following table. Fair values are most sensitive to changes in capitalization rates.

	December 31, 2020			**December 31, 2019**		
	Min	**Max**	**Weighted Average**	Min	Max	Weighted Average
Capitalization rate	**5.50%**	**10.00%**	**7.00%**	5.50%	10.50%	6.82%
Terminal capitalization rate	**5.75%**	**9.00%**	**6.92%**	5.75%	9.00%	6.87%
Discount rate	**6.25%**	**9.75%**	**8.02%**	6.50%	9.50%	7.76%

An increase in the capitalization rates by 50 basis points would decrease the carrying amount of investment properties by $47,934 (2019 - $53,109). A decrease in the capitalization rates by 50 basis points would increase the carrying amount of investment properties by $55,306 (2019 - $61,511). Due to the uncertainty of the economic environment as a result of COVID-19, these estimates could be subject to significant changes and such changes could be material.

Non-derivative financial liabilities

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

Derivative financial instruments

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

The fair value of the interest rate swaps are calculated as the net present value of the future cash flows expected to arise on the variable and fixed portion, determined using applicable yield curves at the measurement date. As at December 31, 2020 the fair value of the interest rate swap asset is $64 (2019 - $173) and interest rate swap liability is $37 (2019 - $nil).

The significant unobservable inputs used in the fair value measurement of the conversion feature on the convertible debentures are as follows:

- Volatility - expected volatility as at December 31, 2020 was derived from the historical prices of the REIT's trust units. Volatility was 41.63% (2019 - 19.68%).
- Credit spread - the credit spread of the convertible debenture was imputed from the traded price of the convertible debenture as at December 31, 2020. The credit spread used was 11.34% (2019 - 4.01%).

As at December 31, 2020 the fair value of the conversion features on our convertible debentures was $1,871 (2019 - $3,080).

Valuations performed during the year resulted in fair value gains of $1,063 (2019 - losses of $789). The REIT notes that it is currently not possible to estimate the long-term impact that COVID-19 will have on the economy, including the equity and debt markets. As the valuation of the conversion feature on our convertible debentures is dependent on the historical price of the REIT's trust units and the trading price of the convertible debenture, the impact on the valuation of the conversion feature on our convertible debentures cannot be estimated at this time and such impact could be material.

Class B LP Units

Class B LP Units are remeasured to fair value on a recurring basis and categorized as Level 2 in the fair value hierarchy. The units are fair valued based on the trading price of the trust units at the period end date. At December 31, 2020 the fair value of the Class B LP Units was $77,884, resulting in a fair value gain of $53,052 in income for the year (2019 - fair value loss of $9,922). The REIT notes that it is currently not possible to estimate the long-term impact that COVID-19 will have on the economy, including the equity markets. As the valuation of the Class B LP Units is dependent on the trading price of the trust units, the impact on the valuation of the Class B LP Units cannot be estimated at this time and such impact could be material.

(In $000s except unit and per unit amounts)

27. SUBSEQUENT EVENTS

Distributions declared

On January 14, 2021 we declared a distribution of $0.035 per unit for the months of January, February and March 2021. The distributions will be payable as follows:

Month	Record Date	Distribution Date	Distribution Amount
January 2021	January 29, 2021	February 16, 2021	$0.035 per unit
February 2021	February 26, 2021	March 15, 2021	$0.035 per unit
March 2021	March 31, 2021	April 15, 2021	$0.035 per unit