Management's Discussion & Analysis

November 5, 2020

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 unaudited condensed interim consolidated financial statements and related notes for the quarter ended September 30, 2020 and the MD&A and consolidated financial statements and related notes for the year ended December 31, 2019. The discussion outlines strategies and provides analysis of our financial performance for the third quarter of 2020.

The underlying financial statements in this MD&A, including 2019 comparative information, have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. 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 November 5, 2020. Disclosure contained in this MD&A is current to November 5, 2020, unless otherwise indicated.

Regulatory Filings

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

Non-standard Measures

We refer to terms and measures which are not specifically defined in the CPA 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 section *"Non-standard Measures".*

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, 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 2020 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 of 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 in the 2019 annual management's discussion and analysis. Please refer to page 24 of this MD&A for information on Pandemics, Natural Disasters or Other Unanticipated Events.

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: Vision, Goals & Strategy

Melcor REIT has an established and diversified portfolio in western Canada. We currently own 39 income-producing office, retail and industrial properties representing 3.21 million square feet (sf) in gross leasable area (GLA). These high-quality properties feature stable occupancy and a diversified mix of tenants, some of whom have been in place for over 25 years. We are externally managed, administered and operated by Melcor Developments Ltd. ("Melcor") pursuant to the asset management and property management agreements entered into at our IPO.

As at November 5, 2020, Melcor, through an affiliate, holds an approximate 55.4% effective interest in the REIT through ownership of all Class B LP Units of the Partnership and is the ultimate controlling party.

Melcor, a real estate company founded in 1923, has a rich history of growth and performance prior to the formation of the REIT. Our objective is to continue that tradition by expanding our portfolio of income-producing properties across western Canada to provide stable monthly cash distributions to unitholders. Our growth strategy is simple: acquire and improve. Together with Melcor, we have a proven track record of doing both.

Acquire:

Due to continuing market uncertainty, investment volatility, and increased risk outlook amid the COVID-19 pandemic, we have determined our best course of action in the near term is to maintain a conservative strategy, which includes a mandate to conserve cash. As a result we are not actively seeking third-party acquisitions. We plan to resume this aspect of our growth strategy as future conditions allow.

In 2019, we completed two third-party acquisitions which brought on an additional 339,000 sf of retail space.

Improve:

We continue to improve our existing assets through both property management and asset enhancement programs.

Asset Enhancement:

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.

In 2020, we are deferring all non-essential projects to minimize activity at our properties and improve near-term liquidity. Certain capital projects deemed essential have proceeded as necessary. We continue to monitor major property components to ensure that deferred maintenance does not compromise or negatively affect the operation of the property.

We responded to 97% of calls to our signature customer care line within 30 minutes in Q3-2020, exceeding our target of a 95% on time response rate. We use this metric as an indicator of our success in providing responsive care to our tenants.

SIGNIFICANT EVENT - COVID-19

In March 2020, the COVID-19 global pandemic arrived in western Canada. Since its arrival, federal and provincial governments responded rapidly to enact emergency measures to slow the spread of the virus and ensure that our medical system did not become overwhelmed. Initial measures included mandatory closure of all non-essential businesses until Stage 2 of Alberta's relaunch strategy allowed them to reopen after June 12. This had a material impact on many of our tenants.

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. While we are now in what appears to be the second wave of COVID-19 in Alberta, most measures and protocols have stabilized and we have become generally comfortable with wearing masks in public and even within our offices.

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. These measures include:

- Intensified cleaning of high-touch surfaces three times per day.
- Health and safety best practice education via a variety of mediums, including posters in prominent locations in our properties, tenant memos and social media.
- Additional hand sanitation stations throughout properties.
- Deferral of non-emergency maintenance.
- Closure of the management office to guests with all staff able to work from home doing so. Offices re-opened with protocols in place to limit contact and cohort sizes.
- Masks required in office building common areas.

COVID-19 impacted many of our tenants and the REIT worked with tenants on a case by case basis, participating in the Canada Emergency Commercial Rent Assistance program and making arrangement for lease payment deferrals where appropriate, depending on the tenant’s financial need and potential to access government relief programs. These arrangements demonstrate our continued solidarity and partnership with our tenants and belief that support will provide our tenants 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 when the COVID-19 impact on the economy levels out.

We continue to actively monitor ongoing 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 from the early days of COVID-19. These measures include(d):

- Reducing the monthly distributions made from April to December 2020 to $0.03 per trust unit (previously $0.05625).
- Deferring discretionary capital spending of approximately $1.30 million planned for 2020 in an effort to improve near term liquidity and reduce non-essential activity at our properties. Strategic value-adding asset enhancement and preservation projects remain a cornerstone of the REIT and Melcor's long-term strategy to improve our assets and retain and attract tenants. In the current environment, we aim to balance long-term objectives with near-term needs in establishing our priorities.
- Deferring and suspending operating expenses where appropriate, representing approximately 10% of budgeted expenditures year to date. We will continue to monitor our maintenance program as tenants resume operations in order to continue to provide best-in-class service while ensuring efficiency and cost effectiveness.
- Deferring sales tax, property tax and utility payments where available. The majority of these payment deferrals were repaid in the third quarter.
- Working with lenders to defer mortgage payments where available. Deferrals have now ended and repayments are underway.

- Reducing onsite staffing costs as a result of wage and staff reductions undertaken by the REIT's manager, Melcor.

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 September 30, we had collected 92% of third quarter rent and 83% of second quarter rent, with $4.13 million in outstanding arrears, of which $0.78 million has been deferred and a further $1.35 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 and third quarters by asset class.

Collections by Asset Class Q2 & Q3 2020 (% of Total Billed Rent)	Q2-2020	Q3-2020	Total	Office	Retail	Industrial	Other
Tenant collected	79	89	**84**	86	81	91	100
Government collected	4	3	**3**	3	4	4	—
Total collected	**83**	**92**	**87**	**89**	**85**	**95**	**100**
Provisions and write-offs for bad debts	11	5	**8**	8	8	5	—
Deferred receivables	4	—	**2**	1	3	—	—
Uncollected	2	3	**3**	2	4	—	—
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**

The REIT expects full collection of deferred and uncollected amounts. To date 96% of October 2020 billed rent had been collected plus an additional $0.38 million in payments related to prior periods.

The federal government, in partnership with the provinces and territories, created the Canada Emergency Commercial Rent Assistance (CECRA) 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 7% of the REIT's billed rent for the program period at a net cost of $0.67 million for the nine-months ended September 30, 2020.

On October 9th the federal government announced a new commercial rent program, the Canadian Emergency Rent Subsidy (CERA) program, to succeed the CECRA program. The program is to provide direct tenant rent support; however details and conditions have yet to be finalized.

Year to date we have recorded $1.31 million in bad debt expense unrelated to the CECRA program. To date in 2020 we have experienced an increase in our expected credit losses due to the current environment.

The following table outlines our bad debts expense recorded year to date

Bad Debt Expenses and Write-offs ($000s)	Nine-months ended September 30, 2020			Nine-months ended September 30, 2019	
	CECRA Write-offs	Net Other Bad Debts Expense	Total Bad Debts Expense	Net Other Bad Debts Expense	Total Bad Debts Expense
Retail	**378**	**550**	**928**	4	4
Office	**253**	**761**	**1,014**	105	105
Industrial	**38**	**—**	**38**	—	—
Other	**—**	**—**	**—**	—	—
Total	**669**	**1,311**	**1,980**	109	109

The following table illustrates our outstanding billed receivables (excluding deferred amounts), deferrals and allowances as at September 30, 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 illustrated below.

Tenant Receivables and Provisions ($000s)					
		September 30, 2020		December 31, 2019	
	Tenant Billed Receivables	**Deferred Tenant Receivables**	**Allowance for Doubtful Accounts**	Tenant Billed Receivables	Allowance for Doubtful Accounts
Retail	**1,865**	**565**	**(499)**	280	(59)
Office	**1,486**	**214**	**(852)**	390	(102)
Industrial	**—**	**—**	**—**	10	—
Other	**—**	**—**	**—**	—	—
Total	**3,351**	**779**	**(1,351)**	680	(161)

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 to support them in enduring the length of the pandemic and being successful long-term. Lease restructures entered into during the quarter resulted in reduced revenue of approximately $0.27 million.

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

Valuation Update

The REIT's portfolio remained stable in the third quarter with year to date fair value losses of $59.83 million, or 8% of our portfolio, following a full revaluation of our portfolio by our external valuation professionals in Q2-2020. Losses were due to the COVID impact to stabilized NOI and projected cash flow as well as a 25-50 bps increase in capitalization rates and discount rates. Approximately 89% of the portfolio realized a valuation write-down, with losses ranging from 1% to 17%. A breakdown of the losses recorded to date by asset class is as follows:

Fair Value Losses by Asset Class ($000s)			
		September 30, 2020	
Retail		(26,092)	(6)%
Office		(27,552)	(10)%
Industrial		(6,141)	(14)%
Residential		(46)	— %
Total	**$**	**(59,831)**	**(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 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 $16.29 million as at September 30, 2020 (December 31, 2019 - $14.16 million).

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.

Q3-2020 Highlights & Key Performance Indicators

Financial Highlights	Three months ended September 30			Nine months ended September 30		
($000s)	**2020**	2019	△%	**2020**	2019	△%
Non-standard KPIs						
Net operating income (NOI)	**10,567**	11,460	(8)%	**34,270**	33,854	1 %
Same-asset NOI	**9,532**	11,249	(15)%	**30,730**	33,490	(8)%
Funds from operations (FFO)	**5,417**	6,570	(18)%	**18,660**	19,579	(5)%
Adjusted funds from operations (AFFO)	**3,485**	4,860	(28)%	**12,983**	14,253	(9)%
Adjusted cash flow from operations (ACFO)[5]	**3,593**	4,875	(26)%	**13,299**	14,295	(7)%
Rental revenue	**18,441**	17,468	6 %	**55,830**	52,886	6 %
Income before fair value adjustments	**3,054**	3,189	(4)%	**10,148**	9,366	8 %
Fair value adjustment on investment properties[1]	**(2,535)**	462	nm	**(59,831)**	(258)	nm
Cash flows from operations	**4,549**	2,979	53 %	**10,954**	6,842	60 %
Distributions to unitholders	**1,174**	2,218	(47)%	**4,565**	6,666	(32)%
Distributions[2]	**$0.09**	$0.17	— %	**$0.35**	$0.51	— %
Per Unit Metrics						
Net income (loss)						
Basic	**($0.13)**	$0.18		**$1.64**	$0.36	
Diluted	**($0.13)**	$0.18		**($1.44)**	$0.36	
Weighted average number of units for net income (000s):[3]						
Basic	**13,051**	13,149	(1)%	**13,083**	13,169	(1)%
Diluted	**13,051**	13,149	(1)%	**29,208**	13,169	122 %
FFO						
Basic	**$0.19**	$0.23		**$0.64**	$0.70	
Diluted	**$0.18**	$0.23		**$0.61**	$0.69	
Payout ratio	**48 %**	72 %		**55%**	73%	
AFFO						
Basic	**$0.12**	$0.17		**$0.44**	$0.51	
Payout ratio	**75 %**	97 %		**78%**	100%	
ACFO[5]						
Basic	**$0.12**	$0.17		**$0.46**	$0.51	
Payout ratio	**73 %**	97 %		**77%**	99%	
Weighted average number of units for FFO, AFFO and ACFO (000s):[4]						
Basic	**29,176**	28,048	4 %	**29,208**	28,069	4 %
Diluted	**36,344**	32,775	11 %	**36,376**	32,796	11 %

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-September. 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 was applied retroactively.*

Operational Highlights			
	Sep 30, 2020	Dec 31, 2019	△%
Total assets ($000s)	**729,109**	783,534	(7)%
Equity ($000s)(1)	**289,055**	289,873	— %
Debt ($000s)(2)	**451,918**	454,013	— %
Weighted average interest rate on debt	**3.74 %**	3.78 %	(1)%
Debt to GBV, excluding convertible debentures (maximum threshold - 60%)	**50%**	50%	—%
Debt to GBV (maximum threshold - 65%)	**59%**	59%	—%
Finance costs coverage ratio(3)	**2.31**	2.45	(6)%
Debt service coverage ratio(4)	**2.71**	2.26	20 %

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 metrics is not calculated for purposes of covenant compliance on any of our debt facilities. Please refer to page 26 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 metrics is not calculated for purposes of covenant compliance on any of our debt facilities. Please refer to page 26 for further discussion and analysis.*

Operational Highlights			
	Sep 30, 2020	Dec 31, 2019	△%
Number of properties	**39**	39	— %
Gross leasable area (GLA) (sf)	**3,208,299**	3,208,950	— %
Occupancy (weighted by GLA)	**88.4%**	88.0%	—%
Retention (weighted by GLA)	**79.6%**	59.6%	34%
Weighted average remaining lease term (years)	**4.04**	4.37	(8)%
Weighted average base rent (per sf)	**$16.51**	$16.79	(2)%

Q3-2020 Highlights:

Our portfolio performance remained stable through the nine months ended September 30, 2020 in spite of the COVID-19 pandemic compounding already challenging markets. While leasing activity has slowed as a result of the pandemic, we remained proactive in renewing existing tenants, resulting in a healthy retention rate of 79.6% at quarter-end. We also continue to pursue new tenant opportunities and achieved a modest increase in occupancy to 88.4% compared to year end.

COVID-19 continues to impact results as described in the Significant Event - COVID-19 section of this MD&A. The main impacts in Q3-2020 and year to date are:

- Bad debts expense of $0.56 million ($1.31 million year to date).
- CECRA rent forgiveness of $0.67 million on a net basis.
- Decline in our traded security values, with a 53% decrease in the trading price of the REIT's trust units (compared to Dec. 31/19), resulting in a $69.18 million gain on the valuation of our Class B LP Units. As of September 30, 2020 our convertible debentures are trading at an average of $77.43 (down from $103.00 at Dec. 31/19).
- Portfolio revaluation resulting in fair value losses of $59.83 million.

Highlights of our performance in the third quarter include:

FINANCIAL HIGHLIGHTS

- The REIT's portfolio grew by 12% (based on sf, via third-party acquisition) in 2019, contributing to revenue growth of 6% in both the quarter and year to date periods. The growth in our portfolio was offset by the impact of the

COVID-19 pandemic. Net operating income (NOI) was down 8% in the third quarter (up 1% year to date), as a result of the following charges recorded in income during the period:

  - $0.67 million in write-offs related to the CECRA program,
  - $0.56 million ($1.31 million year to date) for bad debts expense, and
  - $0.27 million related to lease restructuring.

- 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 $5.42 million or $0.19 per unit, compared to $6.57 million or $0.23 in Q3-2019, a direct result of lower same-asset NOI.
- ACFO was down 26% to $3.59 million or $0.12 per unit (2019 - $4.88 million or $0.17 per unit) due to decreased FFO. Management believes that ACFO best reflects our cash position and therefore our ability to pay distributions. The REIT preemptively reduced our distribution in the second quarter in anticipation of lower ACFO in the near term.
- As at September 30, 2020 we had $4.29 million in cash and $12.00 million in undrawn liquidity under our revolving credit facility.

OPERATING HIGHLIGHTS

- Year-to-date same-asset NOI was down 8% compared to Q3-2019 due to write-offs related to the CECRA program, provisions for bad debts and charges related to lease restructuring in addition to the drag from the large tenant that vacated a downtown Edmonton office building on October 1, 2019.
- We continued to execute on our proactive leasing strategy to both retain existing and attract new tenants. We completed lease renewals representing 209,644 sf (including holdovers) for a retention rate of 79.6% at September 30, 2020. New leasing has been steady across the portfolio with 98,523 sf in new deals commencing to date in 2020 and an additional 69,109 sf committed for future occupancy.

CREATING UNITHOLDER VALUE

- We paid distributions of $0.03 per trust unit in July, August and September for a quarterly payout ratio of 73% based on ACFO and 48% based on FFO (2019 - 97% and 72% respectively). Distributions were reduced by 47% as of April 2020 in order to conserve cash in response to market volatility.
- 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 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. 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. Year to date, we have repurchased a total of 82,790 units at a cost of $0.34 million.
- Following the expiration of the blackout on May 15, 2020 the REIT suspended its purchases under the NCIB program and cancelled its Automatic Share Purchase Plan (ASPP) 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.

SUBSEQUENT EVENT

- On October 15, 2020 we declared a distribution of $0.03 per trust unit for the months of October, November and December 2020. The October distribution is payable on November 16, 2020 to unitholders on record October 30, 2020. The November distribution is payable on December 15, 2020 to unitholders on record November 30, 2020. The December distribution is payable on January 15, 2021 to unitholders on record December 31, 2020.

Consolidated Revenue & Net Operating Income

	Three months ended September 30			Nine months ended September 30		
($000s)	**2020**	2019	△%	**2020**	2019	△%
Base rent	**11,975**	11,341	6 %	**36,354**	33,631	8 %
Recoveries	**6,475**	6,341	2 %	**19,609**	19,728	(1)%
Other	**587**	560	5 %	**1,929**	1,723	12 %
Amortization of tenant incentives	**(911)**	(868)	5 %	**(2,888)**	(2,671)	8 %
Straight-line rent adjustment	**315**	94	235 %	**826**	475	74 %
Rental revenue	**18,441**	17,468	6 %	**55,830**	52,886	6 %
Operating expenses	**4,606**	3,180	45 %	**11,636**	9,729	20 %
Utilities and property taxes	**3,864**	3,602	7 %	**11,986**	11,499	4 %
Direct operating expenses	**8,470**	6,782	25 %	**23,622**	21,228	11 %
Net rental income	**9,971**	10,686	(7)%	**32,208**	31,658	2 %
NOI	**10,567**	11,460	(8)%	**34,270**	33,854	1 %
Same asset NOI	**9,532**	11,249	(15)%	**30,730**	33,490	(8)%
Operating margin	**54 %**	61 %	(11)%	**58 %**	60 %	(3)%

Revenue

Rental revenue increased $0.97 million or 6% over Q3-2019 and $2.94 million or 6% year to date as a result of the acquisition of Melcor Crossing in November, 2019. Melcor Crossing contributed rental revenue of $1.73 million in Q3-2020 and $5.24 million year to date (2019 - $nil). Revenue from this new property acquisition was partially offset by a decline in same-asset revenues due to reduced recovery revenue on account of lower direct operating costs, declining lease rates and increased vacancy.

Year to date, we signed 308,167 sf of new and renewed leasing (including holdovers) and maintained steady occupancy at 88.4%. Approximately 38,000 sf of new leasing relates to short-term deals which are not expected to produce long-term cash flows. In 2020, 104 leases representing 332,622 sf or 10.4% of our portfolio are up for renewal. We have retained 79.6% of expiring leases (representing 209,644 sf) as at September 30, 2020 in spite of the COVID-19 pandemic and challenging market conditions in many of our operating regions. While we continue to see pockets of opportunity, we anticipate the effects of the pandemic to continue to negatively impact the commercial leasing market in the future.

The table below summarizes the leasing activity for 2020 year to date:

	Square feet	**Weighted average base rent (per sf)**	**Occupancy %**
Opening occupancy	**2,824,787**	**$16.79**	**88.0 %**
Expiring Leases	(263,226)	$16.05	
Other Terminations	(27,140)	$15.26	
Renewals/Holdovers	209,644	$17.62	
New Leasing	98,523	$11.24	
Lease Amendments	(5,597)	$—	
Closing occupancy	**2,836,991**	**$16.51**	**88.4 %**

Weighted average base rent was $16.51, down $0.28 compared to December 31, 2019 and down $0.13 over Q3-2019 due to lower rates on short-term deals. Occupancy is up slightly compared to year end.

The following table summarizes our average base rent, GLA, occupancy and retention:

	Sep 30, 2020	Sep 30, 2019	△%	Dec 31, 2019	△%
Weighted average base rent (per sq. ft.)	**$16.51**	$16.64	(1)%	$16.79	(2)%
Weighted average remaining lease term	**4.04**	4.45	(9)%	4.37	(8)%
GLA	**3,208,299**	2,925,738	10 %	3,208,950	— %
Occupancy %	**88.4%**	90.1%	(2)%	88.0%	— %
Retention %	**79.6%**	80.3%	(1)%	59.6%	34 %

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 2% in the quarter and down 1% year to date while direct operating expenses were up 25% and 11% respectively. The decline in our recovery ratio is due to $0.67 million in write-offs related to the CECRA program and $0.56 million ($1.31 million year to date) in bad debts expense (2019 - $0.11 million year to date) (Collectively "Bad Debts")). Excluding these amounts our recovery ratio was down 3% year to date over 2019 due to higher vacancy at certain properties and fluctuations in the timing of expenditures incurred within the portfolio.

Other revenue includes parking 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 for the year 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 an increase in SLR during the quarter.

Direct operating expenses

Direct operating expenses were up 11% year to date due to $1.98 million in bad debts recorded during the period. Direct operating expenses related to the acquisition of Melcor Crossing were $1.92 million (2019 - $nil).

Property taxes and utilities were up 4% year to date, with same-assets down 4%. Property taxes declined across the portfolio as a result of lower valuations due to the cancellation and reduction of planned mill rate increases in many municipalities. Utilities were down year to date due to reduced consumption during the height of the pandemic. Utilities normalized in the third quarter as a result of many of our tenants returning to operations in their space during the quarter.

Operating expenses were up 45% in the quarter and 20% year to date as a result of new property acquisitions and bad debts. Excluding bad debts, operating expenses were up 5% in the quarter and stable year to date. Year to date provisions for bad debts (excluding CECRA write-offs) represent 2% of rental revenues. This rate of allowance is unprecedented for the REIT; however, given continued uncertainty it is too early to determine our expectation of future credit losses and caution readers that we expect our provisions for bad debts to 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 down 8% over Q3-2019 and up 1% year to date due to bad debts recorded and partially offset by new properties acquired in 2019. Same-asset NOI was down 15% over Q3-2019 (8% year to date) due to $1.23 million in bad debts recorded ($1.98 million year to date). Excluding bad debts same-asset NOI was $10.74 million in the quarter and $32.58 million year to date, down 4% and 3% over 2019 as a result of lower occupancy on certain properties. Third quarter same-asset NOI was down $1.00 million or 9% over Q2-2020, excluding bad debts same-asset NOI was down 3% over the second quarter due to lease restructures and lower other revenues.

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

	Three months ended September 30			Nine months ended September 30		
($000s)	**2020**	2019	△%	**2020**	2019	△%
Same-asset NOI	**9,532**	11,249	(15)%	**30,730**	33,490	(8)%
Acquisitions	**1,035**	211		**3,540**	364	
NOI	**10,567**	11,460	(8)%	**34,270**	33,854	1 %
Amortization of operating lease incentives	**(911)**	(868)		**(2,888)**	(2,671)	
Straight-line rent adjustment	**315**	94		**826**	475	
Net rental income	**9,971**	10,686	(7)%	**32,208**	31,658	2 %

Property Analysis

At September 30, 2020 our portfolio included interests in 39 retail, office and industrial income-producing properties located in western Canada for a total of 3,208,299 sf of GLA, and a land lease community.

The following table summarizes the composition of our properties at September 30, 2020 by property type:

Property Type	**Number of Properties**	**GLA (sf)/ Lots**	**% of Portfolio (GLA)**	**Fair Value of Investment Properties ($000s)**	**Net rental income for the nine months ended September 30, 2020 ($000s)**
Retail	14	1,397,153	43.5 %	399,622	18,680
Office	21	1,603,055	50.0 %	265,580	10,571
Industrial	3	208,091	6.5 %	37,303	2,206
Land Lease Community	1	308 lots	n/a	16,200	751
	39	**3,208,299**	**100.0 %**	**718,705**	**32,208**

The following table details key financial and operational metrics for each of our asset classes for the three months ended September 30, 2020:

	Retail		Office		Industrial		Land Lease Community	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
Three months ended September 30 ($000s)								
Rental revenue	**9,432**	7,814	**7,755**	8,348	**911**	963	**343**	343
Net rental income	**6,020**	5,392	**2,981**	4,274	**715**	771	**255**	249
Same-asset NOI	**4,798**	5,274	**3,713**	4,939	**766**	787	**255**	249
Nine months ended September 30 ($000s)								
Rental revenue	**28,569**	23,519	**23,387**	25,502	**2,846**	2,846	**1,028**	1,019
Net rental income	**18,680**	15,942	**10,571**	12,718	**2,206**	2,238	**751**	760
Same-asset NOI	**14,928**	15,832	**12,732**	14,604	**2,319**	2,294	**751**	760
As at September 30								
Weighted average base rent (sf)	**$19.54**	$20.25	**$13.81**	$14.08	**$14.10**	$14.51	**n/a**	n/a
Occupancy	**93.0 %**	94.7 %	**83.0 %**	85.6 %	**100.0 %**	100.0 %	**100.0 %**	100.0 %

Retail – our 14 retail properties include 6 multi-building regional power centres, 7 neighborhood shopping centres and a single tenant property. Rental revenue was up 21% in the quarter and year to date mainly due to the acquisition of Melcor Crossing (Nov-2019) which contributed $1.73 million in Q3-2020 and $5.24 million year to date (2019 - $nil). Revenues from Staples Distribution Centre (Apr-2019) contributed an additional $0.30 million year to date over 2019. New property revenues offset a decline in same-asset revenue, a direct result of reduced recoveries on account of lower costs. Occupancy decreased 1.7% from Q3-2019 due to non-renewal of three national fashion retailers in the Edmonton area representing approximately

31,000 sf. In Q3-2020 we signed a deal for approximately 12,000 sf with a national pet retailer for occupancy in Q3 2021. Occupancy was up over Q2-2020 due to 38,000 sf in short term deals. Same-asset NOI was down 9% over Q3-2019 due to $0.38 million in bad debts related to CECRA. Year to date same-asset NOI was down 6% due to $0.44 million in provisions for bad debts recorded in addition to CECRA related write-offs (2019 - $nil). Retail has borne the brunt of the pandemic's effects to date with the road to recovery uncertain.

Office – our 21 office properties include low and medium-rise buildings located in strategic urban and suburban centres. Our office portfolio is our most geographically diverse asset class, with properties across Alberta, in Regina, SK and Kelowna, BC. Rental revenue was down over Q3-2019 as a result of a decline in operating expense recoveries and the departure of one of our larger tenants from a downtown Edmonton office building on October 1, 2019, which also contributed to the decrease in occupancy. Weighted average base rents decreased over Q3-2019 due to continued downward market pressure on new and renewed leasing. 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 25% compared to Q3-2019 due to $0.25 million in bad debts related to CECRA recorded in the quarter and $0.60 million for bad debts expense (2019 - $nil). Year to date same-asset NOI was down 13% due to $0.76 million for bad debts expense (2019 - $0.11 million). Excluding the impact of bad debts, NOI was down due to higher vacancy during the current period.

Industrial – our 3 industrial properties include single and multi-tenant buildings. Our assets remained fully occupied to date in 2020. NOI was down 3% in the quarter due to $0.04 million bad debts related to CECRA and lower rates on renewal of a lease in our Telford Industrial Park. Year to date NOI was up 1% as a result of higher other revenue.

Land Lease Community – we have one land lease community in Calgary, AB, consisting of 308 pad lots. It was 100% occupied at September 30, 2020 (December 31, 2019 and September 30, 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 September 30, 2020 by geographic region:

Geographic Region	Number of Properties	GLA (sf)	% of Portfolio (GLA)	Fair Value of Investment Properties ($000s)	Net rental income for the nine months ended September 30, 2020 ($000s)
Northern Alberta	22	1,955,120	60.9 %	429,927	18,650
Southern Alberta	10	887,209	27.7 %	223,775	10,746
Saskatchewan & British Columbia	7	365,970	11.4 %	65,003	2,812
	39	**3,208,299**	**100.0 %**	**718,705**	**32,208**

The following table details key financial and operational metrics for each of our geographic regions for the three months ended September 30, 2020:

	Northern Alberta		Southern Alberta		Saskatchewan & British Columbia	
	2020	2019	**2020**	2019	**2020**	2019
Three months ended September 30 ($000s)						
Rental revenue	**10,879**	9,915	**5,783**	5,774	**1,779**	1,779
Net rental income	**5,786**	5,717	**3,282**	3,945	**903**	1,024
Same-asset NOI	**5,340**	6,239	**3,213**	3,897	**979**	1,113
Nine months ended September 30 ($000s)						
Rental revenue	**33,179**	29,959	**17,399**	17,501	**5,252**	5,426
Net rental income	**18,650**	17,088	**10,746**	11,546	**2,812**	3,024
Same-asset NOI	**17,108**	18,564	**10,511**	11,587	**3,111**	3,339
As at September 30						
Weighted average base rent (per sf)	**$17.01**	$17.08	**$16.92**	$17.15	**$12.89**	$13.37
Occupancy	**85.4 %**	88.2 %	**94.8 %**	94.1 %	**89.0 %**	89.2 %

Northern Alberta - our Northern Alberta assets are located throughout the greater Edmonton area, including Leduc and Spruce Grove, and in Red Deer and Grande Prairie. Rental revenue and net rental income were up over Q3-2019 mainly due to the acquisition of Melcor Crossing (Nov-2019). Same-asset NOI decreased 8% year-to-date due to $0.68 million in bad debts recorded year to date (2019 - $0.01 million) and lower occupancy in our office portfolio.

Southern Alberta - our Southern Alberta assets are located throughout the greater Calgary area, including Chestermere and Airdrie, and in Lethbridge. Rental revenue was stable over 2019. Same-asset NOI was down 9% year-to-date due to $1.13 million in bad debts recorded year to date (2019 - $0.08 million).

Saskatchewan and British Columbia - our Saskatchewan and British Columbia assets are located in Regina, SK and Kelowna, BC. Rental revenue was down by 3% and same-asset NOI was down 7% year-to-date due to lower lease rates and occupancy. Bad debts were $0.03 million in the quarter (2019 - $0.02 million).

General & Administrative Expenses

	Three months ended September 30			Nine months ended September 30		
($000s)	**2020**	2019	**△%**	**2020**	2019	**△%**
Asset management fee	**479**	446	7 %	**1,437**	1,325	8 %
Professional fees	**149**	98	52 %	**342**	299	14 %
Public company costs	**44**	55	(20)%	**232**	264	(12)%
Other	**76**	98	(22)%	**268**	273	(2)%
General & administrative expenses	**748**	697	7%	**2,279**	2,161	5%

General & administrative expenses (G&A) were $0.75 million or 4% of rental revenue in Q3-2020 and $2.28 million or 4% of rental revenue year to date. G&A was up 7% in the quarter and 5% year to date due to increased asset management and professional fees. Asset management fees increased as a result of acquisitions completed in 2019 while the increase in professional fees is due to an increase in appraisal costs as a result of the portfolio revaluation in Q2-2020. These were offset by the slight decrease in public company fees as reduced 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

	Three months ended September 30			Nine months ended September 30		
($000s)	**2020**	2019	**△%**	**2020**	2019	**△%**
Interest on mortgages payable and revolving credit facility	**2,870**	2,523	14 %	**8,514**	7,332	16 %
Interest on Class C LP Units	**593**	626	(5)%	**1,803**	1,899	(5)%
Amortization of fair value adjustment on Class C LP Units	**(32)**	(33)	(3)%	**(96)**	(99)	(3)%
Interest on convertible debentures	**889**	776	15 %	**2,666**	2,329	14 %
Accretion on convertible debentures	**140**	48	192 %	**412**	141	192 %
Fair value adjustment on derivative instruments	**68**	—	nm	**(1,983)**	204	nm
Amortization of deferred financing fees	**270**	375	(28)%	**918**	1,076	(15)%
Finance costs before distributions	**4,798**	4,315	11 %	**12,234**	12,882	(5)%
Distributions on Class B LP Units	**1,452**	2,513	(42)%	**5,624**	7,542	(25)%
Finance costs	**6,250**	6,828	(8)%	**17,858**	20,424	(13)%

Finance costs were down $0.58 million or 8% in Q3-2020 and down $2.57 million or 13% year to date as a result of reduced distributions on Class B LP Units and fair value adjustments on our derivative instruments. Excluding these amounts, finance costs were 10% higher in the quarter and 12% year-to-date.

The increase in interest on mortgages payable and revolving credit facility was due to a higher draw on our line of credit and new mortgages and higher interest expense as a result of portfolio growth. 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 the $46.00 million 2019 Debentures, paying a coupon of 5.10%. On December 19, 2019 we redeemed the 5.50% $34.50 million 2014 Debentures. 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. Distributions in the quarter were $0.09 per unit, consistent with Q2-2020 and down 47% compared to Q1-2020. The reduced distribution payment was offset by the 1,225,822 Class B LP Units issued to Melcor for $10.00 million in Q4-2019.

As at September 30, 2020 the weighted average interest rate on our revolving credit facility, mortgages payable, Class C LP Units and convertible debentures was 3.74% (December 31, 2019 - 3.78%).

Income Taxes

As at September 30, 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.

	Three months ended September 30			Nine months ended September 30		
($000s, except per unit amounts)	**2020**	2019	△%	**2020**	2019	△%
Net income (loss) for the period	**(1,645)**	2,310		**21,477**	4,732	
Add / (deduct)						
Fair value adjustment on investment properties	**2,535**	(462)		**59,831**	258	
Fair value adjustment on Class B LP Units	**2,096**	1,341		**(69,177)**	4,172	
Amortization of tenant incentives	**911**	868		**2,888**	2,671	
Distributions on Class B LP Units	**1,452**	2,513		**5,624**	7,542	
Fair value adjustment on derivative instruments	**68**	—		**(1,983)**	204	
Funds From Operations (FFO)	**5,417**	6,570	(18)%	**18,660**	19,579	(5)%
Deduct						
Straight-line rent adjustments	**(315)**	(94)		**(826)**	(475)	
Normalized capital expenditures	**(588)**	(587)		**(1,764)**	(1,762)	
Normalized tenant incentives and leasing commissions	**(1,029)**	(1,029)		**(3,087)**	(3,089)	
Adjusted Funds from Operations (AFFO)	**3,485**	4,860	(28)%	**12,983**	14,253	(9)%
FFO/Unit	**$0.19**	$0.23		**$0.64**	$0.70	
AFFO/Unit	**$0.12**	$0.17		**$0.44**	$0.51	
Weighted average number of units (000s):(1)	**29,176**	28,048	4 %	**29,208**	28,069	4 %

(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 a dilutive instrument. The following table calculates diluted FFO and diluted FFO/Unit:

	Three months ended September 30			Nine months ended September 30		
($000s, except per unit amounts)	**2020**	2019	△%	**2020**	2019	△%
Funds From Operations (FFO)	**5,417**	6,570	(18)%	**18,660**	19,579	(5)%
Convertible debentures interest	**889**	776		**2,666**	2,329	
Amortization of deferred financing fees on convertible debentures	**172**	217		**505**	634	
Accretion on convertible debentures	**140**	48		**412**	141	
Funds From Operations - Diluted (FFO - Diluted)	**6,618**	7,611	(13)%	**22,243**	22,683	(2)%
FFO - Diluted/Unit	**$0.18**	$0.23		**$0.61**	$0.69	
Diluted weighted average number of units (000s):(1)	**36,344**	32,775	11 %	**36,376**	32,796	11 %

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

Capital Expenditures

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

Normalized 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.

($000s)	**Nine months ended September 30, 2020**	Year ended, December 31, 2019
Investment in property improvements	**1,445**	2,517
Less non-recoverable	**(437)**	—
Actual capital expenditures	**1,008**	2,517
Normalized capital expenditures	**1,764**	2,349
Variance	**(756)**	168

Actual capital expenditures were below normalized capital expenditures by $0.76 million for the nine-months ended September 30, 2020. In order to strengthen the REIT's flexibility to respond to and support tenants through COVID-19, the REIT is deferring approximately $1.3 million in planned capital expenditures in 2020.

Tenant Incentive & 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 actual spend plus 5 year projected spend.

The following summarizes our actual expenditures compared to normalized amounts:

($000s)	**Nine months ended September 30, 2020**	Year ended, December 31, 2019
Actual tenant incentives and direct leasing expenditures	**2,941**	5,716
Normalized tenant incentives and direct leasing expenditures	**3,087**	4,119
Variance	**(146)**	1,597

Actual tenant incentives and direct leasing expenditures were lower 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 flow 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.

	Three months ended September 30			Nine months ended September 30		
($000s)	**2020**	2019	△%	**2020**	2019	△%
Cash flows from operations	**4,549**	2,979	53 %	**10,954**	6,842	60 %
Distributions on Class B LP Units	**1,452**	2,513		**5,624**	7,542	
Actual payment of tenant incentives and direct leasing costs	**1,019**	1,502		**3,860**	4,657	
Changes in operating assets and liabilities	**(1,540)**	(128)		**(1,370)**	1,181	
Amortization of deferred financing fees[1]	**(270)**	(375)		**(918)**	(1,076)	
Normalized capital expenditures	**(588)**	(587)		**(1,764)**	(1,762)	
Normalized tenant incentives and leasing commissions	**(1,029)**	(1,029)		**(3,087)**	(3,089)	
Adjusted Cash flow from Operations (ACFO)	**3,593**	4,875	(26)%	**13,299**	14,295	(7)%
ACFO/Unit	**$ 0.12**	$ 0.17		**$0.46**	$0.51	
Weighted average number of units (000s)[2]	**29,176**	28,048	4 %	**29,208**	28,069	4 %

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

(2) For 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. Distributions to unitholders during the three and nine-month period were $1.18 million and $4.91 million (Q3-2019 - $2.22 million and $6.67 million).

Distributions made during the three-months ended September 30, 2020 represent a payout ratio of approximately 73% of ACFO (Q2-2019 - 97%). On an FFO basis, distributions represent a payout ratio of 48% (Q2-2019 - 72%).

We use ACFO in evaluating our ability to continue to fund distributions. The most similar IFRS measure is cash flow from operations. Due to the uncertainty surrounding the full impacts and duration of the COVID-19 pandemic the distribution was reduced 47% in the second quarter to ensure near-term liquidity and the sustainability of future distributions. This reduced distribution continued through Q3-2020 and will continue in the fourth quarter. Cash flow from operations, which includes Class B LP Unit distributions as a financing charge, exceeded distributions in the quarter and year-to-date as illustrated below.

	Three months ended September 30			Nine months ended September 30		
($000s)	**2020**	2019	△%	**2020**	2019	△%
Cash flows from operations	**4,549**	2,979	53 %	**10,954**	6,842	60 %
Distributions on Class B LP Units	**1,452**	2,513	(42)%	**5,624**	7,542	(25)%
Cash flow from operations before Class B LP Unit Distributions	**6,001**	5,492	9 %	**16,578**	14,384	15 %
Distributions to unitholders	**(1,177)**	(2,218)	(47)%	**(4,913)**	(6,666)	(26)%
Distributions on Class B LP Units	**(1,452)**	(2,513)	(42)%	**(5,624)**	(7,542)	(25)%
Total distributions	**(2,629)**	(4,731)	(44)%	**(10,537)**	(14,208)	(26)%
Cash flow from operations before Class B LP Unit distributions less total distributions	**3,372**	761	343 %	**6,041**	176	3,332 %
Total distributions as a % of cash flow from operations before Class B LP Unit distributions	**44 %**	86 %	(49)%	**64 %**	99 %	(35)%

Investment Properties

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:

	Nine months ended September 30, 2020	Year ended, December 31, 2019
Number of properties	**39**	39
Total GLA (sf)	**3,338,397**	3,339,030
GLA (REIT owned %) (sf)	**3,208,299**	3,208,950
Fair value of portfolio ($000s)	**718,705**	776,212
Value per square foot	**$224**	$242
NOI ($000s)	**34,270**	45,300
Weighted average capitalization rate	**7.00 %**	6.82 %
Weighted average discount rate	**6.92 %**	6.87 %
Weighted average terminal capitalization rate	**8.02 %**	7.76 %

The REIT's portfolio remained stable in the third 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 $59.83 million for the nine-month period. Third quarter fair value losses were due to a write-down on one of our buildings in the Telford Industrial Park due to lease renewal terms below previous projections.

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 fair value losses 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.

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

($000s)	Nine months ended September 30, 2020	Year ended, December 31, 2019
Northern Alberta	**(38,094)**	2,431
Southern Alberta	**(18,453)**	(1,469)
Saskatchewan & British Columbia	**(3,284)**	(2,584)
	(59,831)	(1,622)

COVID-19 has significantly impacted commercial real estate, with declining 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 bps increase in capitalization rates and discount rates on many of our assets.

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

Fair values are most sensitive to changes in capitalization rates.

	September 30, 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 $47.97 million (December 31, 2019 - $53.11 million) while a 50 basis points decrease (-0.5%) would increase it by $55.35 million (December 31, 2019 - $61.51 million).

Liquidity & Capital Resources

We employ a range of strategies to fund operations, with current cash conservation strategies ongoing in order to ensure long-term sustainability. Our principal liquidity needs are to:

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

We currently have cash conservation strategies in place to ensure long-term sustainability.

Cash Flows

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

	Three months ended September 30			Nine months ended September 30		
($000s)	**2020**	2019	**△$**	**2020**	2019	**△$**
Cash from operating activities	**4,549**	2,979	1,570	**10,954**	6,842	4,112
Cash used in investing activities	**(116)**	(403)	287	**(685)**	(14,611)	13,926
Cash from (used in) financing activities	**(3,894)**	(2,913)	(981)	**(8,259)**	7,611	(15,870)
Increase (decrease) in cash and cash equivalents	**539**	(337)	876	**2,010**	(158)	2,168
Cash and cash equivalents, beginning of the period	**3,751**	1,760	1,991	**2,280**	1,581	699
Cash and cash equivalents, end of the period	**4,290**	1,423	2,867	**4,290**	1,423	2,867

Operating activities

Cash from operating activities increased compared to the prior periods as a result of lower Class B LP Unit distributions, reduced payments of tenant incentives and direct leasing costs and higher cash from changes in operating assets and liabilities. While rent collections improved in the third quarter, in part due to the CECRA program, unpaid rent continues to drag on operating cash flows. This was offset by deferred payment terms on various obligations.

Our tenant incentives and direct leasing cost investments were $1.02 million in the quarter and $3.86 million year to date (2019 - $1.50 million and $4.66 million) as we completed 308,167 sf of new and renewed leasing, resulting in period-end occupancy of 88.4%. 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 before adjustments for working captial and payments of tenant incentives and direct leasing costs were up $0.76 million year to date over 2019 due to new property acquisitions and lower Class B LP Unit distributions, and partially offset by bad debts expense.

Investing activities

To date for 2020, we have spent $1.45 million on our scheduled maintenance program and other projects (2019 - $2.01 million). Our 2020 capital program is currently suspended in an effort to improve near term liquidity and reduce non-essential activities at our properties due to COVID-19. 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.

Year to date we received $0.76 million in principal repayments on our loan receivable.

In the comparative period we invested $12.60 million in the Staples Distribution Centre acquisition.

Financing activities

We drew $0.03 million on our revolving credit facility to date in 2020 in order to fund capital and leasing activities.

Beginning in April, the REIT entered into mortgage amending agreements with various lenders in order to obtain temporary payment relief to conserve cash. To date these arrangements resulted in $3.65 million in reduced payments or 29% of our contracted secured debt payments during the second and third quarter.

On April 1, 2020 we renewed our NCIB program, which expires on March 31, 2021. During the nine-months ended September 30, 2020, 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. 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.

Our monthly distribution was reduced to $0.03 per unit beginning in April 2020 for quarterly distributions of $1.18 million (Q3-2019 - $2.22 million). The current distribution is a 47% reduction from the prior distribution last paid in March 2020, which had been in place since IPO in 2013.

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. 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 liquidity requirements accordingly.

As at September 30, 2020 we had $4.29 million in cash and cash equivalents in addition to $12.00 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, our total indebtedness would be more than 60% (65% including any convertible debentures) of Gross Book Value (GBV). Throughout the period we were in compliance with the Degree of Leverage Ratio and had a ratio of 50% as at September 30, 2020 (59% including convertible debentures).

As at September 30, 2020, our total capitalization was $740.97 million and is comprised of:

($000s)	September 30, 2020	Dec 31, 2019
Revolving credit facility(1)	**23,000**	23,025
Mortgages payable(1)	**293,275**	293,265
Class C LP Units(2)	**66,643**	68,723
Indebtedness, excluding convertible debentures	**382,918**	385,013
Convertible debentures(3)	**69,000**	69,000
Indebtedness	**451,918**	454,013
Class B LP Units(4)	**160,207**	160,207
Trust units	**128,848**	129,666
Equity	**289,055**	289,873
Total capitalization	**740,973**	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.
(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 September 30, 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 September 30, 2020 we we are in compliance with all of our 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 September 30					
($000s)	**Total**	**2020**	**2021**	**2022**	**2023**	**2024**	**Thereafter**
Revolving credit facility	**23,000**	23,000	—	—	—	—	—
Mortgages payable	**293,275**	16,654	39,757	33,954	43,131	43,408	116,371
Class C LP Units	**66,643**	15,059	24,434	1,095	14,932	451	10,672
Convertible debentures	**69,000**	—	—	23,000	—	46,000	—
Total	**451,918**	**54,713**	**64,191**	**58,049**	**58,063**	**89,859**	**127,043**
% of portfolio	100 %	12 %	14 %	13 %	13 %	20 %	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.

Over the next twelve months, four mortgages are up for renewal with an outstanding principal balance of $31.50 million with a weighted average interest rate of 3.07% at September 30, 2020. 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 an outstanding principal balance of $28.28 million and a weighted average interest rate of 2.84% at September 30, 2020. 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. During the quarter we obtained new mortgage financing of $5.85 million at a rate of 2.62%, retiring a $2.39 million maturing mortgage. Additional proceeds were the result of the addition of a previously unencumbered building to the loan. The REIT currently has $27.90 million in unencumbered assets. During the quarter we also secured a one year extension on $9.94 million in Class C LP Unit debt at a rate of 2.93% (previously 5.32% (4.00% including interest rate subsidy). We currently have lending terms to re-finance this debt in addition to another retail mortgage representing $26.60 million in gross proceeds ($13.57 million net). We also continue to work with our lender towards an extension of $14.46 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.

We received payment relief on various debts from our lending partners, resulting in $3.65 million in reduced payments during the year or 29% of our contracted secured debt payments. The majority of deferral periods lapsed during the quarter, with the balance being exhausted subsequent to the quarter, with regular repayments being 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 and we are committed to working with our lenders.

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	**23,000**	—	23,000	3.70 %	0.67
Mortgages payable	**293,275**	276,738	16,537	3.49 %	4.77
Class C LP Units	**66,643**	66,643	—	3.40 %	2.05
Convertible debentures	**69,000**	69,000	—	5.15 %	3.59
Total	**451,918**	**412,381**	**39,537**	**3.74 %**	**3.98**

The weighted average interest rate on our debts was 3.74% (December 31, 2019 - 3.78%).

Debt Service Coverage Ratio and Finance Costs Coverage Ratio – we calculate debt service coverage ratio as FFO for the period 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 for the period divided by finance costs expensed during the period, less distributions on Class B LP Units. Year to date we deferred $2.74 million of scheduled principal payments, resulting in an anomalous increase in our debt service coverage ratio. Excluding these deferrals our debt service coverage ratio would have been 1.94. 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.

($000s)	**Nine months ended September 30, 2020**	Year ended, December 31, 2019
FFO	**18,660**	25,581
Principal repayments on Mortgages payable	4,801	7,700
Principal repayments on Class C LP Units	2,080	3,628
Debt service coverage ratio	**2.71**	2.26
FFO plus finance costs	32,877	43,177
Finance costs(1)	14,217	17,596
Finance costs coverage ratio	**2.31**	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 the 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 trust units issued and the fully diluted number of units outstanding as at September 30, 2020 and December 31, 2019:

	September 30, 2020		December 31, 2019	
Issued and fully paid units ($000s)	**Units**	**$ Amount**	Units	$ Amount
Balance, beginning of period	**13,133,293**	**129,666**	13,186,797	130,194
Repurchase of trust units	**(82,790)**	**(818)**	(53,504)	(528)
Balance, end of period	**13,050,503**	**128,848**	13,133,293	129,666
Dilutive securities				
Class B LP Units(1)	**16,125,147**	**160,207**	16,125,147	160,207
Convertible debentures	**7,168,541**	**69,000**	7,168,541	69,000
Diluted balance, end of period	**36,344,191**	**358,055**	36,426,981	358,873

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

Quarterly Results

	2020			2019				2018
($000s except per unit amount)	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	**18,441**	**18,097**	**19,292**	18,273	17,468	17,474	17,944	17,336
Net income (loss)(1)	**(1,645)**	**(60,790)**	**83,912**	(5,220)	2,310	(56)	2,478	6,737
Funds from operations (FFO)	**5,417**	**6,513**	**6,730**	6,002	6,570	6,478	6,531	6,382
Adjusted funds from operations (AFFO)(2)	**3,485**	**4,636**	**4,862**	4,232	4,860	4,776	4,617	4,792
Adjusted cash flows from operations (ACFO)(4)	**3,593**	**4,740**	**4,965**	4,315	4,875	4,790	4,630	4,796
Per unit metrics								
Basic earnings (loss) per unit	**$ (0.13)**	**$ (4.64)**	**$ 6.39**	$ (0.35)	$ 0.18	$ —	$ 0.19	$ 0.51
FFO (basic)	**$ 0.19**	**$ 0.22**	**$ 0.23**	$ 0.21	$ 0.23	$ 0.23	$ 0.23	$ 0.23
AFFO (basic)(2)	**$ 0.12**	**$ 0.16**	**$ 0.17**	$ 0.15	$ 0.17	$ 0.17	$ 0.16	$ 0.17
ACFO (basic)(4)	**$ 0.12**	**$ 0.16**	**$ 0.17**	$ 0.15	$ 0.17	$ 0.17	$ 0.16	$ 0.17
Annualized distribution rate(3)	**$ 0.360**	**$ 0.360**	**$ 0.360**	$ 0.675	$ 0.675	$ 0.675	$ 0.675	$ 0.675
FFO Payout Ratio	**48%**	**40%**	**73%**	81%	72%	73%	73%	74%
AFFO Payout Ratio	**75%**	**57%**	**102%**	114%	97%	99%	103%	99%
ACFO Payout Ratio	**73%**	**55%**	**105%**	112%	97%	99%	102%	99%
Period-end closing unit price	**$3.83**	**$3.70**	**$2.89**	$8.12	$7.74	$7.65	$7.58	$7.46
Annualized distribution yield on closing unit price (%)(3)	**9.40%**	**9.73%**	**12.46 %**	8.31%	8.72%	8.82%	8.91%	9.05%

(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.

Off Balance Sheet Arrangements, Contractual Obligations, Business Environment & Risks, Related Party Transactions, Critical Accounting Estimates, Changes in Accounting Policies

There were no material changes to the above titled sections at September 30, 2020 in comparison to the December 31, 2019 annual MD&A except as described below.

Business Environment & Risks:

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 a potential second wave outbreak 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.

Internal Control over Financial Reporting and Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were material changes to internal control over financial reporting during the quarter ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Melcor, the REIT's asset and property manager, initiated a crisis management plan in response to the COVID-19 pandemic in March. To support physical distancing, Melcor's employee base began to work from home wherever practical. The remote work arrangements did not have an impact on the design of our internal controls. The REIT will continue to monitor and mitigate the risks associated with changes to its control environment in response to COVID-19.

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 November 5, 2020, 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 these non-standard measures will assist 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 September 30			Nine months ended September 30		
($000s)	**2020**	2019	△%	**2020**	2019	△%
Net income (loss) for the period	**(1,645)**	2,310		**21,477**	4,732	
Net finance costs	**6,237**	6,800		**17,798**	20,335	
Fair value adjustment on Class B LP Units	**2,096**	1,341		**(69,177)**	4,172	
Fair value adjustment on investment properties	**2,535**	(462)		**59,831**	258	
General and administrative expenses	**748**	697		**2,279**	2,161	
Amortization of operating lease incentives	**911**	868		**2,888**	2,671	
Straight-line rent adjustment	**(315)**	(94)		**(826)**	(475)	
NOI	**10,567**	11,460	(8)%	**34,270**	33,854	1 %

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.

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.

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 debentures, 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.

MELCOR REAL ESTATE INVESTMENT TRUST

Condensed Interim Consolidated Financial Statements

For the three and nine-months ended September 30, 2020

(Unaudited)

Condensed Interim Consolidated Statements of Financial Position

As at September 30, 2020

(Unaudited)

($000s)	September 30, 2020	December 31, 2019
ASSETS		
Current Assets		
Cash and cash equivalents	**4,290**	2,280
Accounts receivable	**3,604**	1,666
Other assets (note 5)	**2,370**	2,303
Loan receivable	**140**	900
	10,404	7,149
Non-Current Assets		
Investment properties (note 4 and 16)	**695,635**	753,483
Other assets (note 5)	**23,070**	22,729
Derivative financial asset (note 16)	**—**	173
	718,705	776,385
TOTAL ASSETS	**729,109**	783,534
LIABILITIES		
Current Liabilities		
Revolving credit facility (note 6)	**22,965**	22,864
Accounts payable	**1,627**	1,433
Distribution payable	**875**	1,646
Accrued liabilities and other payables (note 7)	**11,431**	9,670
Class C LP Units (note 9)	**30,227**	27,146
Mortgages payable (note 8)	**42,357**	23,507
	109,482	86,266
Non-Current Liabilities		
Accrued liabilities and other payables (note 7)	**1,690**	1,641
Class B LP Units (note 10 and 16)	**61,759**	130,936
Class C LP Units (note 9)	**36,418**	41,675
Mortgages payable (note 8)	**249,520**	268,113
Convertible debentures	**64,021**	63,104
Derivative financial liabilities (note 16)	**924**	3,080
TOTAL LIABILITIES	**523,814**	594,815
UNITHOLDERS' EQUITY	**205,295**	188,719
TOTAL LIABILITIES AND UNITHOLDERS' EQUITY	**729,109**	783,534

See accompanying notes to the condensed interim consolidated financial statements.

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

For the three and nine-months ended September 30

(Unaudited)

	Three months ended September 30		Nine months ended September 30	
($000s)	**2020**	**2019**	**2020**	**2019**
Rental revenue (note 12 and 14)	**18,441**	17,468	**55,830**	52,886
Direct operating expenses (note 14)	**(8,470)**	(6,782)	**(23,622)**	(21,228)
Net rental income	**9,971**	10,686	**32,208**	31,658
General and administrative expenses (note 14)	**(748)**	(697)	**(2,279)**	(2,161)
Fair value adjustment on investment properties (note 4 and 16)	**(2,535)**	462	**(59,831)**	(258)
Fair value adjustment on Class B LP Units (note 10 and 16)	**(2,096)**	(1,341)	**69,177**	(4,172)
Income before finance costs	**4,592**	9,110	**39,275**	25,067
Interest income	**13**	28	**60**	89
Finance costs (note 13 and 14)	**(6,250)**	(6,828)	**(17,858)**	(20,424)
Net finance costs	**(6,237)**	(6,800)	**(17,798)**	(20,335)
Net income (loss) and comprehensive income (loss)	**(1,645)**	2,310	**21,477**	4,732
Basic income (loss) per trust unit (note 11)	**($0.13)**	$0.18	**$1.64**	$0.36
Diluted income (loss) per trust unit (note 11)	**($0.13)**	$0.18	**($1.44)**	$0.36

See accompanying notes to the condensed interim consolidated financial statements.

Condensed Interim Consolidated Statements of Changes in Unitholders’ Equity

As at September 30, 2020

(Unaudited)

($000s except unit amounts)	Number of Trust Units	Trust Units	Contributed Surplus	Retained Earnings	Total Unitholders' Equity
Balance at December 31, 2019	13,133,293	118,291	40,793	29,635	188,719
Trust units repurchased (note 11)	(82,790)	(818)	482	—	(336)
Net income for the period	—	—	—	21,477	21,477
Distributions to unitholders	—	—	—	(4,565)	(4,565)
Balance at September 30, 2020	13,050,503	117,473	41,275	46,547	205,295

($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 11)	(47,688)	(470)	109	—	(361)
Net income for the period	—	—	—	4,732	4,732
Distributions to unitholders	—	—	—	(6,666)	(6,666)
Balance at September 30, 2019	13,139,109	118,349	40,645	37,071	196,065

See accompanying notes to the condensed interim consolidated financial statements.

Condensed Interim Consolidated Statements of Cash Flows

For the three and nine-months ended September 30

(Unaudited)

	Three months ended September 30		Nine months ended September 30	
($000s)	2020	2019	2020	2019
CASH FLOWS FROM (USED IN)				
OPERATING ACTIVITIES				
Net income (loss) for the period	**(1,645)**	2,310	**21,477**	4,732
Non cash items:				
Amortization of tenant incentives (note 5 and 12)	**911**	868	**2,888**	2,671
Straight-line rent adjustments (note 12)	**(315)**	(94)	**(826)**	(475)
Fair value adjustment on investment properties (note 4 and 16)	**2,535**	(462)	**59,831**	258
Fair value adjustment on Class B LP Units (note 10 and 16)	**2,096**	1,341	**(69,177)**	4,172
Amortization of fair value adjustment on Class C LP Units (note 13)	**(32)**	(33)	**(96)**	(99)
Accretion on convertible debenture (note 13)	**140**	48	**412**	141
Fair value adjustment on derivative instruments (note 13 and 16)	**68**	—	**(1,983)**	204
Amortization of deferred financing fees (note 13)	**270**	375	**918**	1,076
	4,028	4,353	**13,444**	12,680
Payment of tenant incentives and direct leasing costs	**(1,019)**	(1,502)	**(3,860)**	(4,657)
Changes in operating assets and liabilities	**1,540**	128	**1,370**	(1,181)
	4,549	2,979	**10,954**	6,842
INVESTING ACTIVITIES				
Additions to investment properties	**—**	—	**—**	(12,603)
Investment in property improvements (note 4)	**(536)**	(403)	**(1,445)**	(2,008)
Proceeds from loan receivable	**420**	—	**760**	—
	(116)	(403)	**(685)**	(14,611)
FINANCING ACTIVITIES				
Change in revolving credit facility	**(4,000)**	2,405	**(25)**	21,905
Proceeds from mortgages payable (note 8)	**5,850**	1,340	**6,290**	16,376
Repayment of mortgages payable (note 8)	**(3,980)**	(3,304)	**(7,195)**	(20,934)
Repayment on Class C LP Units (note 9)	**(587)**	(920)	**(2,080)**	(2,709)
Units repurchased (note 11)	**—**	(216)	**(336)**	(361)
Distributions to unitholders	**(1,177)**	(2,218)	**(4,913)**	(6,666)
	(3,894)	(2,913)	**(8,259)**	7,611
INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS DURING THE PERIOD	**539**	(337)	**2,010**	(158)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	**3,751**	1,760	**2,280**	1,581
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	**4,290**	1,423	**4,290**	1,423

See accompanying notes to the condensed interim consolidated financial statements.

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. We began operations on May 1, 2013.

Our principal business is to acquire, own and manage office, retail and industrial properties in select markets across Western Canada. The properties are externally managed, administered and operated by Melcor Developments Ltd. ("Melcor") pursuant to the Property Management Agreement and Asset Management Agreement (note 14).

As at November 5, 2020, Melcor, through an affiliate, holds an approximate 55.4% effective interest in the REIT through ownership of all Class B LP Units of Melcor REIT Limited Partnership (the "Partnership") and is the ultimate controlling party.

We are governed under the laws of the Province of Alberta. Our registered office 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 condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standard Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*.

These condensed interim consolidated financial statements should be read in conjunction with our annual consolidated financial statements for the year ended December 31, 2019, which have been prepared in accordance with IFRS as issued by the IASB. These condensed interim consolidated financial statements were authorized for issue by the Board of Trustees on November 5, 2020.

The condensed interim consolidated financial statements have been prepared using the same significant accounting policies and methods as those used in our annual consolidated financial statements for the year ended December 31, 2019.

3. SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Significant accounting policies

The accounting policies followed in these condensed interim consolidated financial statements are consistent with those of the previous financial year. There are no new or amended standards adopted during the current quarter.

Critical accounting estimates

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in the federal and provincial governments enacting emergency measures to combat the spread of the virus. These emergency measures have resulted in negative impacts to our economy, and the REIT recognizes that the following areas of significant estimates may be impacted by the uncertainty surrounding future economic activity.

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 cost 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.

4. INVESTMENT PROPERTIES

($000s)	Nine months ended September 30, 2020	Year ended December 31, 2019
Balance - beginning of period	**753,483**	683,768
Additions		
Direct acquisition	**—**	68,175
Property improvements	**1,445**	2,517
Direct leasing costs	**538**	645
Fair value adjustment on investment properties (note 16)	**(59,831)**	(1,622)
Balance - end of period	**695,635**	753,483

In accordance with our policy 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 nine-months ended September 30, 2020, all investment properties were valued by qualified independent external valuation professionals. Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 16.

Presented separately from investment properties is $15,231 (December 31, 2019 - $15,716) in tenant incentives and $7,839 (December 31, 2019 - $7,013) in straight-line rent adjustments (note 5). The fair value of investment properties has been reduced by these amounts.

5. OTHER ASSETS

($000s)	September 30, 2020	December 31, 2019
Current Assets		
Prepaid expense, and other	**2,370**	2,303
Non-Current Assets		
Straight-line rent adjustments	**7,839**	7,013
Tenant incentives	**15,231**	15,716
	23,070	22,729

During the nine-month period, we recorded tenant incentives of $2,403 (2019 - $3,734) and recorded $2,888 (2019 - $2,671) of amortization expense respectively.

In accordance with SIC 15, *Operating leases - incentives*, amortization of tenant incentives is recorded on a straight-line basis over the term of the lease against rental revenue.

6. REVOLVING CREDIT FACILITY

($000s)	September 30, 2020	December 31, 2019
Amount drawn on facility	**23,000**	23,025
Unamortized transaction fees	**(35)**	(63)
Unamortized discount on bankers acceptance	**—**	(98)
	22,965	22,864

7. ACCRUED LIABILITIES AND OTHER PAYABLES

($000s)	September 30, 2020	December 31, 2019
Current Liabilities		
Tenant security deposits and pre-payments	**2,904**	3,213
Accrued finance costs	**1,659**	739
Other accrued liabilities and payables	**6,868**	5,718
	11,431	9,670
Non-Current Liabilities		
Decommissioning obligation	**1,690**	1,641

8. MORTGAGES PAYABLE

($000s)	September 30, 2020	December 31, 2019
Mortgages amortized over 15-25 years at fixed interest rates	**276,738**	276,745
Mortgage amortized over 25 years at a fixed interest rate (via a floating for fixed interest rate swap)	**16,097**	16,520
Mortgage with interest only payments at floating interest rate of prime plus 1%	**440**	—
Unamortized deferred financing fees	**(1,398)**	(1,645)
	291,877	291,620
Current portion of mortgages payable	**(42,357)**	(23,507)
	249,520	268,113
Interest rate ranges	**(2.58%-4.91%)**	(2.58%-4.91%)

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

($000s)	September 30, 2020	December 31, 2019
Balance - beginning of period	**291,620**	259,586
Principal repayments:		
Scheduled amortization on mortgages	**(4,801)**	(7,700)
Mortgage repayments	**(2,394)**	(36,718)
New mortgages	**6,290**	76,616
Mortgage interest payments deferred	**915**	—
Deferred financing fees capitalized	**(56)**	(626)
Amortization of deferred financing fees	**303**	462
Balance - end of period	**291,877**	291,620

During the period ended September 30, 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 of September 30, 2020, mortgage amending agreements had been entered into related to twenty-three mortgages with an outstanding principal balance of $229,262. 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. The majority of deferral periods lapsed during the quarter, with the balance being exhausted subsequent to the quarter, with regular repayments being resumed.

9. CLASS C LP UNITS

Class C LP Units are held by Melcor in consideration of debt retained on certain properties sold to the REIT. Distributions are made on the units in order 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 interest expense.

During the nine-months ended, 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 payment of principal 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 be required to make payments of principal, 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.

($000s)	September 30, 2020	December 31, 2019
Class C LP Units amortized over 15-25 years at fixed interest rates	**66,643**	68,723
Unamortized fair value adjustment	**2**	98
	66,645	68,821
Current portion of Class C LP Units	**(30,227)**	(27,146)
	36,418	41,675
Effective interest rate	**3.40 %**	3.40 %

As at September 30, 2020 we had 10,785,613 Class C LP Units issued and outstanding (December 31, 2019 - 10,785,613).

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

($000s)	September 30, 2020	December 31, 2019
Balance - beginning of period	**68,821**	72,580
Principal repayments:		
Scheduled amortization on Class C LP Units	**(2,080)**	(3,628)
Amortization of fair value adjustment on Class C LP Units (note 13)	**(96)**	(131)
Balance - end of period	**66,645**	68,821

10. CLASS B LP UNITS

Class B LP Units are held by Melcor and are exchangeable at the option of the holder for one trust unit and, therefore, are considered a puttable instrument and are required to be accounted for as a financial liability. Each unit is accompanied by one special voting unit which entitles the holder to one vote at any meeting of the unitholders. Distributions on Class B LP Units are recorded and paid to holders equal to those declared on trust units and are included in finance costs.

In accordance with our policy, we record Class B LP units at fair value. We remeasured the Class B LP Units at September 30, 2020 and recognized a fair value gain of $69,177 during the nine-month period (2019 - fair value loss of $4,172). Supplemental information on fair value measurement, including valuation technique and the key input, is included in note 16.

At September 30, 2020 there were 16,125,147 Class B LP Units issued and outstanding at a fair value of $3.83 per unit or $61,759 (December 31, 2019 - 16,125,147 at $8.12 per unit or $130,936). The REIT notes that the economic uncertainty surrounding COVID-19 has created volatility in the equity markets which has significantly impacted the fair value of these units.

The following table summarizes the change in Class B LP Units for the period:

	September 30, 2020		December 31, 2019	
	# of units	($000's)	# of units	($000's)
Balance - beginning of period	**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 16)	**—**	**(69,177)**	—	9,922
Balance - end of period	**16,125,147**	**61,759**	16,125,147	130,936

11. UNITHOLDERS' EQUITY

On April 1, 2020 we commenced a normal course issuer bid ("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.

During the nine-month period we purchased 82,790 units (2019 - 47,688) for cancellation at a cost of $336 (2019 - $361), pursuant to the NCIB. Trust units were reduced by $818 (2019 - $470) and contributed surplus increased by $482 (2019 - $109).

At September 30, 2020, our issued and outstanding trust units were 13,050,503 (December 31, 2019 - 13,133,293).

($000's except unit and per unit amounts)	**Three months ended September 30**		**Nine months ended September 30**	
	2020	**2019**	**2020**	**2019**
Net income (loss) - basic	**(1,645)**	2,310	**21,477**	4,732
Impact of Class B LP Units fair value adjustment and distributions	**—**	—	**(63,553)**	—
Impact of convertible debentures interest, fair value adjustment, amortization and accretion	**—**	—	**—**	—
Net income (loss) - diluted	**(1,645)**	2,310	**(42,076)**	4,732
Basic weighted average trust units outstanding	**13,050,503**	13,148,508	**13,082,511**	13,169,499
Impact of conversion of Class B LP Units	**—**	—	**16,125,147**	—
Impact of conversion of convertible debentures	**—**	—	**—**	—
Diluted weighted average trust units outstanding	**13,050,503**	13,148,508	**29,207,658**	13,169,499
Basic income (loss) per trust unit	**(0.13)**	0.18	**1.64**	0.36
Diluted income (loss) per trust unit*	**(0.13)**	0.18	**(1.44)**	0.36

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

12. RENTAL REVENUE

The components of rental revenue are as follows:

($000s)	**Three months ended September 30**		**Nine months ended September 30**	
	2020	**2019**	**2020**	**2019**
Lease revenue	**12,563**	11,901	**38,296**	35,405
Variable lease revenue	**3,514**	3,256	**10,524**	9,922
Service revenue	**2,960**	3,085	**9,072**	9,755
Amortization of tenant incentives (note 5)	**(911)**	(868)	**(2,888)**	(2,671)
Straight-line adjustments	**315**	94	**826**	475
	18,441	17,468	**55,830**	52,886

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 nine-months ended September 30, 2020, the government announced the Canada Emergency Commercial Rent Assistance (CECRA) for small businesses. The program provides 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 $669 recorded in direct operating expenses for the nine-months ended September 30, 2020.

(Unaudited - in $000s except unit and per unit amounts)

13. FINANCE COSTS

The components of finance costs are as follows:

(0000s)	Three months ended September 30		Nine months ended September 30	
	2020	**2019**	**2020**	**2019**
Interest on mortgages payable and revolving credit facility	**2,870**	2,523	**8,514**	7,332
Interest on Class C LP Units	**593**	626	**1,803**	1,899
Amortization of fair value adjustment on Class C LP Units	**(32)**	(33)	**(96)**	(99)
Distributions on Class B LP Units	**1,452**	2,513	**5,624**	7,542
Interest on convertible debenture	**889**	776	**2,666**	2,329
Accretion on convertible debentures	**140**	48	**412**	141
Fair value adjustment on derivative instruments	**68**	—	**(1,983)**	204
Amortization of deferred financing fees	**270**	375	**918**	1,076
	6,250	6,828	**17,858**	20,424

Total finance costs paid during the three and nine-month period were $4,633 and $17,098 (2019 - $5,635 and $18,215).

14. RELATED PARTY TRANSACTIONS

Our condensed interim consolidated financial statements include the following related party transactions with Melcor, and its affiliates, as our controlling unitholder:

a) Property and Asset Management Agreements

Pursuant to the terms of the Property and Asset Management Agreements, we incurred the following fees during the period:

	Three months ended September 30		Nine months ended September 30	
	2020	**2019**	**2020**	2019
Asset Management Agreement				
Base Annual Management Fee	**479**	446	**1,437**	1,325
Acquisition Fee	**—**	—	**—**	125
Property Management Agreement				
Monthly Fee	**522**	512	**1,633**	1,524
Lease Fee	**77**	79	**519**	372
	1,078	1,037	**3,589**	3,346

The Base Annual Management Fee is included in general and administrative expenses. Monthly Fees are included in direct operating expenses. Acquisition Fees, Capital Expenditure Fees and Lease Fees are capitalized to investment properties. As at September 30, 2020 there was $683 (December 31, 2019 - $744) payable to Melcor related to these fees.

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

During the three and nine-month period ended September 30, 2020, $1,452 and $5,624 in distributions were recorded on Class B LP Units held by Melcor (2019 - $2,513 and $7,542). These distributions were recorded as finance costs (note 13). As at September 30, 2020 there was $484 payable to Melcor for the September distribution (December 31, 2019 - $907 for the December distribution).

Also during the three and nine-month period ended September 30, 2020, Melcor, as holder of all Class C LP Units, was paid $1,182 and $3,885 to fund principal and interest payments on the retained debt (2019 - $1,537 and $4,608).

c) Rental Revenue

For the three and nine-month period ended September 30, 2020 we collected $236 and $728 in rental revenue from Melcor and an affiliate for use of office space (2019 - $246 and $633). This amount is included in rental revenue.

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.

15. FINANCIAL RISK MANAGEMENT

As a result of COVID-19, the REIT's exposure to risks as a result of holding financial instruments could be impacted. The impact on these risks is as follows:

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 $1,352 (2019 - $81).

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 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 economic uncertainty cause by COVID-19, the REIT has entered into several amending agreements to obtain relief periods in which payments of interest and principal will be suspended temporarily. These relief periods will 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 the refinancing of maturing debt.

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 $230 (December 31, 2019 - $229) Due to the volatility resulting from the uncertainty surrounding COVID-19, there is risk that these rates will fluctuate significantly. We are not subject to other significant market risks pertaining to our financial instruments with the exception of our Class B LP Units (note 10).

16. 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 receivable, loan receivable, 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 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 debentures, are 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 is estimated based on the closing trading price of the REIT's debenture (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.

		September 30, 2020				December 31, 2019	
($000s)		Fair Value	Amortized Cost	Total Carrying Value	Total Fair Value	Total Carrying Value	Total Fair Value
Non-financial assets							
Investment properties	Level 3	695,635	—	695,635	695,635	753,483	753,483
Financial liabilities							
Mortgages payable	Level 3	—	291,877	291,877	297,936	291,620	296,828
Class B LP Units	Level 2	61,759	—	61,759	61,759	130,936	130,936
Class C LP Units	Level 3	—	66,645	66,645	66,645	68,821	68,821
Convertible debentures	Level 2	—	64,021	64,021	50,165	63,104	67,990
Derivative financial liability							
Interest rate swap	Level 3	65	—	65	65	—	—
Conversion feature on convertible debentures	Level 3	859	—	859	859	3,080	3,080
Derivative financial asset							
Interest rate swap	Level 3	—	—	—	—	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.

(Unaudited - in $000s except unit and per unit amounts)

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 key inputs 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 September 30, 2020 of which 53 investment properties (of 53 legal phases) with a fair value of $695,635 were valued by qualified independent external valuation professionals during the period. Valuations performed during the three and nine-month period resulted in fair value losses of $2,535 and $59,831. 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 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.

Weighted average stabilized net operating income for investment properties is $1,616 (December 31, 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.

	September 30, 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 $47,974 (December 31, 2019 - $53,109). A decrease in the capitalization rates by 50 basis points would increase the carrying amount of investment properties by $55,351 (December 31, 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.

(Unaudited - in $000s except unit and per unit amounts)

Non-derivative financial instruments

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. Due to the volatility resulting from uncertainty surrounding COVID-19, interest rates have declined significantly, which has had a negative impact on the fair value of mortgages payable and Class C LP Units. The REIT is expecting to continue to experience significant volatility as the situation evolves.

Derivative financial instruments

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

The fair value of the interest rate swap is 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 September 30, 2020 the fair value of the interest rate swap contract is $65 in a liability position (December 31, 2019 - $173 asset position).

The significant unobservable inputs used in the fair value measurement of the conversion features on the convertible debentures are volatility and credit spread. As at September 30, 2020, the fair value of the conversion feature on our convertible debentures was $859 (December 31, 2019 - $3,080).

Valuations performed during the nine-month period resulted in fair value gains of $1,983 (2019 - fair value losses of $204).

Due to the volatility in the equity and debt markets resulting from uncertainty surrounding COVID-19, the REIT trust units and convertible debentures have been negatively impacted which has had a significant impact on the fair value of the conversion features on our convertible debentures. The REIT is expecting to continue to experience significant volatility as the situation evolves.

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 September 30, 2020 the fair value of the Class B LP Units was $61,759, resulting in a fair value gain of $69,177 for the nine-month period (December 31, 2019 - fair value loss of $9,922). The REIT notes that the economic uncertainty surrounding COVID-19 has created volatility in the equity markets which has significantly impacted the fair value of these units.

17. SUBSEQUENT EVENTS

Distributions

On October 15, 2020 we declared a distribution of $0.03 per unit for the months of October, November and December 2020. The distributions will be payable as follows:

Month	Record Date	Distribution Date	Distribution Amount
October 2020	October 30, 2020	November 16, 2020	$0.03 per unit
November 2020	November 30, 2020	December 15, 2020	$0.03 per unit
December 2020	December 31, 2020	January 15, 2021	$0.03 per unit