Management's Discussion & Analysis

May 4, 2021

The following Management's Discussion and Analysis (MD&A) of Melcor Real Estate Investment Trust's (the REIT) results should be read in conjunction with the unaudited condensed interim consolidated financial statements and related notes for the quarter ended March 31, 2021 and the MD&A and consolidated financial statements and related notes for the year ended December 31, 2020. The discussion outlines strategies and provides analysis of our financial performance for the first quarter of 2021.

The underlying financial statements in this MD&A, including 2020 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 May 4, 2021. Disclosure contained in this MD&A is current to May 4, 2021, 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 2021 and beyond, future leasing, acquisition and financing plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook 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 2020 annual management's discussion and analysis.

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

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 May 4, 2021, Melcor, through an affiliate, holds an approximate 55.3% effective interest in the REIT through ownership of all Class B LP Units of 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:

Our acquisition program was on pause through 2020 due to market uncertainty, investment volatility, and increased risk amid the COVID-19 pandemic. We plan to resume this aspect of our growth strategy as future conditions allow.

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. We continue to actively seek out programs to recognize and benchmark our current energy and climate change initiatives as well as further our commitments to reducing our carbon footprint.

In 2021, we received ENERGY STAR certification at our Fountain Tire Place building in Edmonton, AB with a score of 88/100, representing that the building is more energy efficient than 88% of similar buildings nationwide. In 2021, Melcor joined the Edmonton Corporate Climate Leaders Program. In the program, we will benchmark our energy usage and set targets for climate action along with other corporate leaders in the Edmonton business community.

We responded to 99% of calls to our signature customer care line within 30 minutes in Q1-2021, 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

The COVID-19 global pandemic arrived in western Canada in March 2020 and the federal and provincial governments responded with a series of emergency measures to slow the spread of the virus and ensure that our medical system did not become overwhelmed. The initial lock-down, including the mandatory closure of all non-essential businesses from March until June 2020, has had and continues to have a material impact on many of our tenants. Subsequent lock-downs of non-essential businesses occurred from November 2020 until February 2021 and again starting April 2021. While vaccines continue to rollout, we remain watchful of the situation and continue to adhere to guidelines to stop the spread and keep our stakeholders safe.

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

Melcor, as the REIT's property manager, continues to focus on responding quickly as the situation evolves, implementing various measures to provide safe and clean work environments and keep our tenants and visitors to our properties safe while doing our part to slow the spread.

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

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

Operations Update

In the early days of the COVID-19 pandemic we undertook a series of measures to conserve cash and place the REIT in a position to support our tenants. In response to business conditions, financial results and our outlook we were pleased to announce the following:

- Increased monthly distribution by 17% to $0.035 per unit commencing January 2021 (previously $0.03).
- Following the end of our reporting blackout we reactivated our NCIB program and renewed it effective April 1, 2021. To date in 2021 we have repurchased 81,859 units for $0.51 million at a weighted average cost of $6.20 per unit or 63% of book value.
- Restarted our capital program following deferral of discretionary capital spending in 2020. Our 2021 capital plan includes strategic asset enhancement and preservation projects with a focus on equipment upgrades and maintenance initiatives that will reduce energy consumption in our properties. Planned spend for 2021 is $2.1 million.

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. As of March 31, we had collected 98% of first quarter rent (excluding amounts owing and receivable related to 2020 year end reconciliations), with $2.35 million in outstanding arrears, of which $0.33 million has been deferred and a further $0.55 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 REIT expects collection of deferred and uncollected amounts less those provided for as doubtful accounts. To date 98% of April 2021 billed rent had been collected.

In the first quarter we recognized a net $0.04 million recovery in previously provided bad debts (2020 - $0.06 million expense). We recognized $1.75 million in bad debts expense for the year ended December 31, 2020. 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.

The following table illustrates our outstanding billed receivables (excluding deferred amounts), deferrals and allowances as at March 31, 2021 and December 31, 2020 by asset class. Accrued and other receivables of $0.79 million (2020 - $0.83 million) are not reflected in the figures illustrated below. Annual recovery reconciliations are posted to ledgers in March of the following year.

Tenant Receivables and Provisions ($000s)						
			March 31, 2021			December 31, 2020
	Tenant Billed Receivables	**Deferred Tenant Receivables**	**Allowance for Doubtful Accounts**	Tenant Billed Receivables	Deferred Tenant Receivables	Allowance for Doubtful Accounts
Retail	**1,585**	**266**	**(386)**	1,476	376	(499)
Office	**401**	**64**	**(142)**	774	63	(303)
Industrial	**24**	**—**	**(20)**	39	—	—
Other	**14**	**—**	**—**	8	—	—
Total	**2,024**	**330**	**(548)**	2,297	439	(802)

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.

We continue working diligently with our tenants to support them through the COVID-19 pandemic. 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.

Q1-2021 Highlights & Key Performance Indicators

Financial Highlights	Three-months ended March 31		
($000s)	**2021**	2020	△%
Non-standard KPIs			
Net operating income (NOI)	**12,627**	11,964	6 %
Same-asset NOI	**12,627**	11,964	6 %
Funds from operations (FFO)	**7,101**	6,730	6 %
Adjusted funds from operations (AFFO)	**5,604**	4,862	15 %
Adjusted cash flow from operations (ACFO)	**5,749**	4,966	16 %
Rental revenue	**19,486**	19,292	1 %
Income before fair value adjustments	**4,493**	2,942	53 %
Fair value adjustment on investment properties[1]	**(401)**	(6,187)	nm
Cash flows from operations	**5,793**	3,453	68 %
Distributions to unitholders	**1,369**	2,216	(38)%
Distributions[2]	**$0.11**	$0.17	(35)%
Per Unit Metrics			
Net (loss) income			
Basic	**($1.87)**	$6.39	
Diluted	**($1.87)**	$0.08	
Weighted average number of units for net (loss) income (000s):[3]			
Basic	**13,046**	13,130	(1)%
Diluted	**13,046**	29,255	(55)%
FFO			
Basic	**$0.24**	$0.23	
Diluted	**$0.23**	$0.22	
Payout ratio	**43%**	73%	
AFFO			
Basic	**$0.19**	$0.17	
Payout ratio	**55%**	102%	
ACFO[5]			
Basic	**$0.20**	$0.17	
Payout ratio	**53%**	99%	
Weighted average number of units for FFO, AFFO and ACFO (000s):[4]			
Basic	**29,171**	29,255	— %
Diluted	**36,340**	36,424	— %

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 $0.035 per unit. 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.*

Operational Highlights	Mar 31, 2021	Dec 31, 2020	△%
Total assets ($000s)	**726,053**	724,658	— %
Equity ($000s)[(1)]	**288,675**	289,055	— %
Debt ($000s)[(2)]	**446,295**	449,658	(1)%
Weighted average interest rate on debt	**3.68 %**	3.68 %	— %
Debt to GBV, excluding convertible debentures (maximum threshold - 60%)	**49%**	50%	(2%)
Debt to GBV (maximum threshold - 65%)	**58%**	59%	(2%)
Finance costs coverage ratio[(3)]	**2.54**	2.34	9 %
Debt service coverage ratio[(4)]	**2.14**	2.53	(15)%

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 19 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 19 for further discussion and analysis.*

Operational Highlights	Mar 31, 2021	Dec 31, 2020	△%
Number of properties	**39**	39	— %
Gross leasable area (GLA) (sf)	**3,212,581**	3,208,298	— %
Occupancy (weighted by GLA)	**87.2%**	87.6%	—%
Retention (weighted by GLA)	**72.4%**	82.8%	(13%)
Weighted average remaining lease term (years)	**3.98**	3.96	1 %
Weighted average base rent (per sf)	**$16.66**	$16.67	— %

Q1-2021 Highlights:

Our portfolio performance remained stable through the three-months ended March 31, 2021 in spite of the COVID-19 pandemic continuing to hamper 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 72.4% at quarter-end. We also continue to pursue new tenant opportunities and had 37,834 sf in new deals commence to date in 2021. Occupancy dropped slightly to 87.2% compared to year end.

Highlights of our performance in the first quarter include:

FINANCIAL HIGHLIGHTS

- Revenue was stable at $19.49 million, with higher than normal other revenue due to $1.00 million in early lease termination fees from a tenant who had previously occupied 6,384 sf, contributing 0.4% towards 2020 base rent. This unusual other revenue was partially offset by lower recovery revenue and reduced straight-line rent. Net operating income (NOI) was up 6% in the quarter on account of higher other revenue.
- Net income in the current and comparative periods is significantly impacted by non-cash fair value adjustments on Class B LP Units due to changes in the REIT's unit price. The change in unit price has a counter-intuitive impact on net income, as an increase in unit value decreases net income. Appreciation in our traded securities, with a 34% increase in the trading price of the REIT's trust units compared to December 31, 2020, resulted in a $26.77 million loss on the valuation of our Class B LP Units. In the comparative period net income was also significantly impacted by fair value adjustments on investment properties due to changes in NOI/capitalization rates.
- Management believes funds from operations (FFO) is a better reflection of our true operating performance. FFO was $7.10 million or $0.24 per unit, compared to $6.73 million or $0.23 in Q1-2020, a direct result of higher NOI.

- ACFO was up 16% to $5.75 million or $0.20 per unit (2020 - $4.97 million or $0.17 per unit) due to increased FFO and lower straight-line rent adjustments. Management believes that ACFO best reflects our cash position and therefore our ability to pay distributions.
- As at March 31, 2021 we had $4.46 million in cash and $28.50 million in undrawn liquidity under our revolving credit facility.

OPERATING HIGHLIGHTS

- We continued to execute on our proactive leasing strategy to both retain existing and attract new tenants. We completed lease renewals representing 57,335 sf (including holdovers) for a retention rate of 72.4% at March 31, 2021. A further 129,795 sf of future 2021 renewals have been committed. New leasing has been steady across the portfolio with 37,834 sf in new deals commencing to date in 2021 and an additional 55,275 sf committed for future occupancy. While we continue to see pockets of opportunity, we anticipate the effects of the pandemic to continue to negatively impact the commercial leasing market.

CREATING UNITHOLDER VALUE

- On January 14, 2021 the Board approved a 17% increase in the monthly distribution, following a 47% reduction in our monthly distribution in April 2020. The increased distribution reflects improved business conditions, financial results and our outlook for 2021. We paid distributions of $0.035 per trust unit in January, February and March for a quarterly payout ratio of 53% based on ACFO and 43% based on FFO (2020 - 99% and 73% respectively).
- We reactivated our NCIB program in March 2021 following its suspension in May 2020. On April 1, 2021 we commenced a new NCIB. We are entitled to purchase up to 652,525 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 3,824. 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, 2022. Year to date, we have repurchased a total of 81,859 units at a cost of $0.51 million.

SUBSEQUENT EVENT

- On April 15, 2021 we declared a distribution of $0.035 per trust unit for the months of April, May and June 2021. The April distribution is payable on May 17, 2021 to unitholders on record April 30, 2021. The May distribution is payable on June 15, 2021 to unitholders on record May 31, 2021. The June distribution is payable on July 15, 2021 to unitholders on record June 30, 2021.

Consolidated Revenue & Net Operating Income

	Three-months ended March 31		
($000s)	**2021**	2020	△%
Base rent	**12,016**	12,179	(1)%
Recoveries	**6,850**	7,245	(5)%
Other	**1,655**	684	142 %
Amortization of tenant incentives	**(915)**	(1,067)	(14)%
Straight-line rent adjustment	**(120)**	251	(148)%
Rental revenue	**19,486**	19,292	1 %
Operating expenses	**3,582**	3,727	(4)%
Utilities and property taxes	**4,312**	4,417	(2)%
Direct operating expenses	**7,894**	8,144	(3)%
Net rental income	**11,592**	11,148	4 %
NOI	**12,627**	11,964	6 %
Same asset NOI	**12,627**	11,964	6 %
Operating margin	**59 %**	58 %	2 %

Revenue

Rental revenue was stable over Q1-2020 with higher other revenue offsetting lower recovery revenue and reduced straight-line rent adjustments. Other revenue was up in the quarter due to the early termination of a national restaurant chain in Leduc Common resulting in $1.00 million in lease break fees. The tenant previously occupied 6,384 sf, contributing 0.4% towards 2020 base rent, and had 11 years remaining on a 20 year lease.

Year to date, we signed 95,169 sf of new and renewed leasing (including holdovers) and maintained steady occupancy at 87.2%. In 2021, 114 leases (excluding month to month tenants) representing 293,663 sf or 9.2% of our portfolio are up for renewal. We have retained 72.4% of expiring leases (57,335 sf) as at March 31, 2021 in spite of the COVID-19 pandemic and challenging market conditions in many of our operating regions. A further 129,795 sf of future 2021 renewals have been committed. While we continue to see pockets of opportunity, we anticipate the effects of the pandemic to continue to negatively impact the commercial leasing market. Other terminations include both early lease terminations and termination of month to month tenancies.

The table below summarizes the leasing activity for 2021 year to date:

	Square feet	**Weighted average base rent (per sf)**	**Occupancy %**
Opening occupancy	**2,808,964**	**$16.67**	**87.6 %**
Expiring leases	(79,204)	$18.89	
Other terminations	(25,939)	$19.42	
Renewals/holdovers	57,335	$20.18	
New leasing	37,834	$13.45	
Lease amendments	3,423	$—	
Closing occupancy	**2,802,413**	**$16.66**	**87.2 %**

Weighted average base rent and occupancy were stable over December 31, 2020 at $16.66. Rates on new leasing and renewals/holdovers are significantly impacted by deal composition and can vary significantly from period to period.

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

	Mar 31, 2021	Mar 31, 2020	△%	Dec 31, 2020	△%
Weighted average base rent (per sq. ft.)	**$16.66**	$16.69	— %	$16.67	— %
Weighted average remaining lease term	**3.98**	4.35	(9)%	3.96	1 %
GLA	**3,212,581**	3,208,463	— %	3,208,298	— %
Occupancy %	**87.2%**	88.1%	(1)%	87.6%	— %
Retention %	**72.4%**	86.7%	(16)%	82.8%	(13)%

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 down 5% in the quarter while direct operating expenses were down 3%. The decline in our recovery ratio is due to lower occupancy, higher proportion of gross leases and variability of expenditures within our portfolio.

Other revenue includes parking, storage, lease amendment fees and other miscellaneous revenue that is ancillary to our business and fluctuates from period to period. In the first quarter we recognized $1.00 million in lease break fees related to the early termination of a tenant in Leduc Common.

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. Comparative period tenant incentive amortization was elevated due to timing of deals and incentives. Straight-line rent adjustments (SLR) fluctuate due to the timing of signed leases and the rent-steps under individual leases. Early termination of a lease resulted in $0.19 million in lower straight-line rent adjustments in the quarter.

Direct operating expenses

Property taxes and utilities were down 2% in the quarter. Property taxes declined across the portfolio as a result of lower assessments.

Mild weather in Q1-2021 across western Canada resulted in lower snow removal costs and contributed to the 4% reduction in operating expenses. We recognized a net $0.04 million recovery in previously provided bad debts (2020 - $0.06 million expense). As a result of the COVID-19 pandemic, our bad debt allowance was significantly elevated in 2020 and with continued uncertainty, 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 and same-asset NOI are identical in Q1-2021 as no transactions have been completed within the trailing 12 months. NOI was up 6% over Q1-2020 due to lease termination fees received, offset by lower occupancy and reduced recovery ratio. Sequentially, NOI was up 4% compared to Q4-2020 due to lease termination fees received. Q4-2020 NOI was atypically high due to bad debts recovery and other cost recoveries contributing to lower direct operating costs in the fourth quarter.

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				
($000s)	**31-Mar-21**	31-Mar-20	△%	31-Dec-20	△%
Same-asset NOI	**12,627**	11,964	6 %	12,186	4 %
NOI	**12,627**	11,964	6 %	12,186	4 %
Amortization of operating lease incentives	**(915)**	(1,067)		(891)	
Straight-line rent adjustment	**(120)**	251		(171)	
Net rental income	**11,592**	11,148	4 %	11,124	4 %

Property Analysis

At March 31, 2021 our portfolio included interests in 39 retail, office and industrial income-producing properties located in western Canada for a total of 3,212,581 sf of GLA, and a land lease community.

The following table summarizes the composition of our properties at March 31, 2021 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 three-months ended March 31 2021 ($000s)
Retail	14	1,397,153	43.5 %	397,884	6,938
Office	21	1,607,337	50.0 %	264,653	3,715
Industrial	3	208,091	6.5 %	37,975	687
Land Lease Community	1	308 lots	n/a	16,200	252
	39	**3,212,581**	**100.0 %**	**716,712**	**11,592**

The following table details key financial and operational metrics for each of our asset classes for the three-months ended March 31, 2021:

	Retail		Office		Industrial		Land Lease Community	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
Three-months ended March 31 ($000s)								
Rental revenue	**10,221**	9,942	**8,016**	8,063	**907**	944	**342**	343
Net rental income	**6,938**	6,572	**3,715**	3,583	**687**	738	**252**	255
Same-asset NOI	**7,189**	6,576	**4,450**	4,370	**736**	763	**252**	255
As at March 31								
Weighted average base rent (sf)	**$19.88**	$19.91	**$13.69**	$13.71	**$14.73**	$14.77	**n/a**	n/a
Occupancy	**91.4 %**	92.4 %	**81.9 %**	82.8 %	**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 3% in the quarter due to $1.00 million in lease termination proceeds from a national restaurant tenant in Leduc Common, AB. Higher other income was offset by lower occupancy and lease rates as well as reduced recovery revenue due to mild winter conditions across western Canada. Straight-line rent adjustments were down $0.25 million due in part to early lease termination in the quarter. Higher revenue resulted in a 6% increase in net rental income and a 9% increase in NOI. Excluding lease termination fees rental revenue and NOI were flat over Q4-2020. Occupancy was up 10,000 sf over Q4-2020 due to new leasing commenced during the quarter and retention of 98% of the 41,193 sf that came up for renewal during the quarter.

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 flat compared to Q1-2020 and down 2% sequentially. NOI was flat over Q1-2020 and down $0.58 million over Q4-2020 due to bad debts recovery and other cost recoveries contributing to atypically low direct operating costs in the fourth quarter. Occupancy was down 18,000 sf over Q4-2020 and down 1% over Q1-2020. Occupancy decreased as a results of lower retention on 38,000 sf of expiring leases (44%) and 17,000 sf of other terminations. While work from home orders remain in place across our portfolio we are also pleased to see continued leasing activity with 18,000 sf in new leasing commencing during the quarter and a further 20,000 sf in new deals signed for future occupancy.

Industrial – our 3 industrial properties include single and multi-tenant buildings. Our assets remained fully occupied to date in 2021. Revenue was down 4% over Q1-2020 due to lower lease rates on renewal of 10,091 sf in Q3-2020 and non-cash adjustments related to straight-line rent and tenant improvements. NOI was down 4% as a result of lower base rents and $0.02 million in bad debts expense recorded during the quarter. Weighted average base rents were up $0.61 over Q4-2020 due to rent steps-ups on two leases during the quarter.

Land Lease Community – we have one land lease community in Calgary, AB, consisting of 308 pad lots. It was 100% occupied at March 31, 2021 (December 31, 2020 and March 31, 2020 – 100%). Revenue and NOI on our land lease community was stable in 2021.

Regional Analysis

The following table summarizes the composition of our properties at March 31, 2021 by geographic region:

Geographic Region	Number of Properties	GLA (sf)	% of Portfolio (GLA)	Fair Value of Investment Properties ($000s)	Net rental income for the three-months ended March 31 2021 ($000s)
Northern Alberta	22	1,955,150	60.9 %	427,894	6,795
Southern Alberta	10	887,209	27.6 %	223,774	3,786
Saskatchewan & British Columbia	7	370,222	11.5 %	65,044	1,011
	39	**3,212,581**	**100.0 %**	**716,712**	**11,592**

The following table details key financial and operational metrics for each of our geographic regions for the three-months ended March 31, 2021:

	Northern Alberta		Southern Alberta		Saskatchewan & British Columbia	
	2021	2020	**2021**	2020	**2021**	2020
Three-months ended March 31 ($000s)						
Rental revenue	**11,786**	11,730	**5,799**	5,828	**1,901**	1,734
Net rental income	**6,795**	6,539	**3,786**	3,707	**1,011**	902
Same-asset NOI	**7,479**	7,044	**4,023**	3,858	**1,125**	1,062
As at March 31						
Weighted average base rent (per sf)	**$17.08**	$17.31	**$17.26**	$16.98	**$13.16**	$12.81
Occupancy	**84.0 %**	85.2 %	**92.2 %**	93.8 %	**92.3 %**	90.0 %

Northern Alberta - our Northern Alberta assets are located throughout the greater Edmonton area, including Leduc and Spruce Grove, and in Red Deer and Grande Prairie. Rental revenue was flat over Q1-2020 due to lower occupancy and weighted average base rent offset by $1.00 million in lease termination proceeds. Excluding the termination fee, revenue down 3% over Q4-2020 due to lower operating cost recoveries. NOI excluding termination fees was down $0.57 million over Q1-2020 and down $0.19 million over Q4-2020.

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 2020. NOI was up 4% over Q1-2020 due to fluctuations in our recovery ratio. NOI was down $0.51 million over Q4-2020 due to recovery of bad debts recorded in the fourth quarter.

Saskatchewan and British Columbia - our Saskatchewan and British Columbia assets are located in Regina, SK and Kelowna, BC. Rental revenue and same-asset NOI were up 10% and 6% respectively over Q1-2020 with 11,000 sf of new leasing commencing during the quarter.

General & Administrative Expenses

	Three-months ended March 31		
($000s)	**2021**	2020	△%
Asset management fee	**479**	479	— %
Professional fees	**109**	95	15 %
Public company costs	**135**	148	(9)%
Other	**80**	82	(2)%
General & administrative expenses	**803**	804	—%

General & administrative expenses (G&A) were $0.80 million or 4% of rental revenue in the quarter. G&A was flat over Q1-2020. 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 March 31		
($000s)	**2021**	2020	△%
Interest on mortgages payable and revolving credit facility	**2,815**	2,804	— %
Interest on Class C LP Units	**449**	608	(26)%
Amortization of fair value adjustment on Class C LP Units	**—**	(32)	(100)%
Interest on convertible debentures	**888**	888	— %
Accretion on convertible debentures	**145**	136	7 %
Fair value adjustment on derivative instruments	**1,763**	(2,823)	nm
Amortization of deferred financing fees	**313**	304	3 %
Finance costs before distributions	**6,373**	1,885	238 %
Distributions on Class B LP Units	**1,693**	2,721	(38)%
Finance costs	**8,066**	4,606	75 %

Finance costs were up $3.46 million or 75% in the quarter as a result of fluctuations in fair value adjustments on our derivative instruments. This was partially offset by reduced distributions on Class B LP Units. Excluding these amounts, finance costs were down 2%.

Interest on mortgages payable and revolving credit facility was flat with lower usage of our line of credit in the quarter offsetting higher mortgage indebtedness. Lower interest on Class C LP units was due to repayments made in the past twelve months, which reduced the outstanding balance.

Distributions on Class B LP Units are recorded and paid to holders equal to those declared on trust units. Distributions in the quarter were $0.105 per unit, down 38% compared to Q1-2020. First quarter dividends were up 17% from Q4-2020.

As at March 31, 2021 the weighted average interest rate on our revolving credit facility, mortgages payable, Class C LP Units and convertible debentures was 3.68% (December 31, 2020 - 3.68%).

Income Taxes

As at March 31, 2021, 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 March 31		
($000s, except per unit amounts)	**2021**	2020	△%
Net (loss) income for the period	**(24,439)**	83,912	
Add / (deduct)			
Fair value adjustment on investment properties	**401**	6,187	
Fair value adjustment on Class B LP Units	**26,768**	(84,334)	
Amortization of tenant incentives	**915**	1,067	
Distributions on Class B LP Units	**1,693**	2,721	
Fair value adjustment on derivative instruments	**1,763**	(2,823)	
Funds From Operations (FFO)	**7,101**	6,730	6 %
Deduct			
Straight-line rent adjustments	**120**	(251)	
Normalized capital expenditures	**(587)**	(587)	
Normalized tenant incentives and leasing commissions	**(1,030)**	(1,030)	
Adjusted Funds from Operations (AFFO)	**5,604**	4,862	15 %
FFO/Unit	**$0.24**	$0.23	
AFFO/Unit	**$0.19**	$0.17	
Weighted average number of units (000s):(1)	**29,171**	29,255	— %

(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 March 31		
($000s, except per unit amounts)	**2021**	2020	△%
Funds From Operations (FFO)	**7,101**	6,730	6 %
Convertible debentures interest	**888**	888	
Amortization of deferred financing fees on convertible debentures	**177**	166	
Accretion on convertible debentures	**145**	136	
Funds From Operations - Diluted (FFO - Diluted)	**8,311**	7,920	5 %
FFO - Diluted/Unit	**$0.23**	$0.22	
Diluted weighted average number of units (000s):(1)	**36,340**	36,424	— %

(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 capital projects 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)	**Three-months ended March 31, 2021**	Year ended, December 31, 2020
Investment in property improvements	**179**	1,473
Less non-recoverable	**—**	(520)
Actual capital expenditures	**179**	953
Normalized capital expenditures	**587**	2,349
Variance	**(408)**	(1,396)

Actual capital expenditures were below normalized capital expenditures by $0.41 million due to timing of projects undertaken. In 2020 the REIT deferred approximately $1.3 million in planned capital expenditures in order to strengthen the REIT's flexibility to respond to and support tenants through COVID-19. We expect to invest in capital projects totalling $2.1 million in 2021.

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)	**Three-months ended March 31, 2021**	Year ended, December 31, 2020
Actual tenant incentives and direct leasing expenditures	**1,677**	4,479
Normalized tenant incentives and direct leasing expenditures	**1,030**	4,119
Variance	**647**	360

Actual tenant incentives and direct leasing expenditures were higher than normalized amounts due to the timing and type of leasing activity combined with current market conditions. 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 March 31		
($000s)	**2021**	2020	△%
Cash flows from operations	**5,793**	3,453	68 %
Distributions on Class B LP Units	**1,693**	2,721	
Actual payment of tenant incentives and direct leasing costs	**1,746**	1,414	
Changes in operating assets and liabilities	**(1,553)**	(701)	
Amortization of deferred financing fees	**(313)**	(304)	
Normalized capital expenditures	**(587)**	(587)	
Normalized tenant incentives and leasing commissions	**(1,030)**	(1,030)	
Adjusted Cash flow from Operations (ACFO)	**5,749**	4,966	16 %
ACFO/Unit	**$0.20**	$0.17	
Weighted average number of units (000s)[1]	**29,171**	29,255	— %

(1) 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 $0.035 per unit during the first quarter for a total of $1.37 million in distributions (Q1-2020 - $2.22 million).

Distributions made during Q1-2021 represent a payout ratio of approximately 53% of ACFO (Q1-2020 - 99%) and 43% of FFO (Q1-2020 - 73%).

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 of 2020 to ensure near-term liquidity and the sustainability of future distributions. In response to business conditions, financial results and our outlook for 2021 we increased the distribution in Q1-2021 by 17%. Cash flow from operations, which includes Class B LP Unit distributions as a financing charge, exceeded distributions in the quarter as illustrated below.

	Three-months ended March 31		
($000s)	**2021**	2020	△%
Cash flows from operations	**5,793**	3,453	68 %
Distributions on Class B LP Units	**1,693**	2,721	(38)%
Cash flow from operations before Class B LP Unit Distributions	**7,486**	6,174	21 %
Distributions to unitholders	**(1,369)**	(2,216)	(38)%
Distributions on Class B LP Units	**(1,693)**	(2,721)	(38)%
Total distributions	**(3,062)**	(4,937)	(38)%
Cash flow from operations before Class B LP Unit distributions less total distributions	**4,424**	1,237	258 %
Total distributions as a % of cash flow from operations before Class B LP Unit distributions	**41 %**	80 %	(49)%

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:

	Three-months ended March 31, 2021	Year ended, December 31, 2020
Number of properties	**39**	39
Total GLA (sf)	**3,342,679**	3,338,397
GLA (REIT owned %) (sf)	**3,212,581**	3,208,298
Fair value of portfolio ($000s)	**716,712**	716,292
Value per square foot	**$223**	$223
NOI ($000s)	**12,627**	46,456
Weighted average capitalization rate	**6.99 %**	7.00 %
Weighted average discount rate	**6.92 %**	6.92 %
Weighted average terminal capitalization rate	**8.02 %**	8.02 %

For the quarter ended March 31, 2021, Melcor's internal valuation team performed the valuation assessment. The REIT's portfolio remained stable in the first quarter following a full revaluation of our portfolio by our external valuation professionals in 2020 which resulted in $62.75 million in write-downs.

As leases turnover, unit and/or building GLA is remeasured, resulting in changes to GLA.

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

($000s)	**Three-months ended March 31, 2021**	Year ended, December 31, 2020
Northern Alberta	**(221)**	(40,553)
Southern Alberta	**5**	(18,488)
Saskatchewan & British Columbia	**(185)**	(3,707)
	(401)	(62,748)

COVID-19 has significantly impacted commercial real estate with continued market uncertainty and economic challenges impacting stabilized property income and capitalization/discount rates on many of our assets.

There were no significant changes to fair value during the quarter, with adjustments relating to spending that had no material impact on fair value.

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.

	March 31, 2021			**December 31, 2020**		
	Min	**Max**	**Weighted Average**	**Min**	**Max**	**Weighted Average**
Capitalization rate	**5.50%**	**10.00%**	**6.99%**	5.50%	10.00%	7.00%
Terminal capitalization rate	**5.75%**	**9.00%**	**6.92%**	5.75%	9.00%	6.92%
Discount rate	**6.25%**	**9.75%**	**8.02%**	6.25%	9.75%	8.02%

A capitalization rate increase of 50 basis points (+0.5%) would decrease the fair value of investment properties by $48.01 million (December 31, 2020 - $47.93 million) while a 50 basis points decrease (-0.5%) would increase it by $55.41 million (December 31, 2020 - $55.31 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 March 31		
($000s)	**2021**	2020	△$
Cash from operating activities	**5,793**	3,453	2,340
Cash used in investing activities	**(179)**	(115)	(64)
Cash used in financing activities	**(4,895)**	(3,726)	(1,169)
Increase (decrease) in cash and cash equivalents	**719**	(388)	1,107
Cash and cash equivalents, beginning of the period	**3,744**	2,280	1,464
Cash and cash equivalents, end of the period	**4,463**	1,892	2,571

Operating activities

Cash from operating activities increased compared to the prior period as a result of lower Class B LP Unit distributions, higher NOI (on account of atypical lease termination fees) and changes in working capital. Rent collections remained strong in the first quarter, and combined with net refunds related to 2020 actual operating costs, led to the decline in net tenant receivables in 2021.

Our tenant incentives and direct leasing cost investments were $1.75 million in the quarter (Q1-2020 - $1.41 million) as we completed 95,169 sf of new and renewed leasing, resulting in period-end occupancy of 87.2%. 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 capital and payments of tenant incentives and direct leasing costs were up $1.82 million.

Investing activities

To date for 2021, we have spent $0.18 million on our scheduled maintenance program and other projects (2020 - $0.12 million). We remain committed to strategic value-adding asset enhancement and preservation projects as a integral component of our strategy to improve our assets and retain and attract tenants. We have resumed our capital investment program in 2021 and anticipate spending $2.1 million. Asset enhancement investments fluctuate based on the nature and timing of projects undertaken.

Financing activities

We used net proceeds from re-financing secured debts to repay $3.50 million on our revolving credit facility (2020 - net draw of $1.75 million). During the quarter we received gross proceeds of $15.14 million (net $3.45 million) from re-financing of two maturing mortgages.

We repurchased 38,477 (2020 - 23,264) units under our NCIB at a cost of $0.23 million (2020 - $0.13 million).

On January 15 we announced a 17% increase in our monthly distribution rate for a quarterly distribution payment of $1.30 million (Q1-2020 - $2.22 million).

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 March 31, 2021 we had $4.46 million in cash and cash equivalents in addition to $28.50 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 49% as at March 31, 2021 (58% including convertible debentures).

As at March 31, 2021, our total capitalization was $734.97 million and is comprised of:

($000s)	March 31, 2021	Dec 31, 2020
Revolving credit facility[1]	**6,500**	10,000
Mortgages payable[1]	**315,488**	314,578
Class C LP Units	**55,307**	56,080
Indebtedness, excluding convertible debentures	**377,295**	380,658
Convertible debentures[2]	**69,000**	69,000
Indebtedness	**446,295**	449,658
Class B LP Units[3]	**160,207**	160,207
Trust units	**128,468**	128,848
Equity	**288,675**	289,055
Total capitalization	**734,970**	738,713
Gross Book Value (GBV)[4]	**766,457**	766,457
Debt to GBV, excluding convertible debentures (maximum threshold - 60%)	**49 %**	50 %
Debt to GBV (maximum threshold - 65%)	**58 %**	59 %

(1) Debts are presented excluding unamortized transaction costs and discount on bankers acceptance (as applicable).
(2) Convertible debentures are presented at face value, excluding unamortized transaction costs and amounts allocated to conversion feature.
(3) Class B LP Units are classified as equity for purposes of this calculation and are included at their book value.
(4) 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 March 31, 2021, and throughout the period, we were in compliance with our financial covenants. We also have financial covenants on certain mortgages for investment properties. At March 31, 2021 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 March 31					
($000s)	**Total**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Thereafter**
Revolving credit facility	**6,500**	6,500	—	—	—	—	—
Mortgages payable	**315,488**	38,661	37,139	42,075	50,310	22,385	124,918
Class C LP Units	**55,307**	28,434	1,112	14,769	463	478	10,051
Convertible debentures	**69,000**	—	23,000	—	46,000	—	—
Total	**446,295**	**73,595**	**61,251**	**56,844**	**96,773**	**22,863**	**134,969**
% of portfolio	100 %	16 %	14 %	13 %	22 %	5 %	30 %

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

During the quarter we obtained new mortgage financing of $15.14 million (net $3.45 million) at a rate of 2.96%. Over the next twelve months, four mortgages are up for renewal with a maturing principal balance of $29.34 million with a weighted average interest rate of 3.06%. We also have three properties encumbered by Class C LP Units where the underlying mortgages - held by Melcor - are up for renewal in the next 12 months. The Class C LP Units have a maturing principal balance of $27.20 million and a weighted average interest rate of 2.84%. The financing environment, including commercial lending, has been significantly impacted by the effects of COVID-19 and various government measures undertaken. While conditions have improved since the height of the pandemic, lenders remain cautious, and conditions remain uncertain as to the near and long-term impact to real estate fundamentals. Subsequent to quarter end we completed the re-financing of two Edmonton area properties for gross proceeds of $29.39 million ($7.06 million net) at a weighted average rate of 2.67%. We also continue to work with our lender towards an extension of $13.94 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 have agreed to terms with our syndicate lender for renewal of our credit facility which matures June 1, 2021.

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	**6,500**	—	6,500	3.70 %	0.17
Mortgages payable	**315,488**	281,808	33,680	3.43 %	5.17
Class C LP Units	**55,307**	55,307	—	3.30 %	1.87
Convertible debentures	**69,000**	69,000	—	5.15 %	3.09
Total	**446,295**	**406,115**	**40,180**	**3.68 %**	**4.37**

The weighted average interest rate on our debts was 3.68% (December 31, 2020 - 3.68%).

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. In 2020 we deferred scheduled principal payments, resulting in an anomalous increase in our debt service coverage ratio. Excluding these deferrals ($2.84 million), our debt service coverage ratio would have been 1.97. We consider these measures to be useful in evaluating our ability to service our debt. These metrics are not calculated for purposes of covenant compliance on any of our debt facilities.

($000s)	**Three-months ended March 31, 2021**	Year ended, December 31, 2020
FFO	**7,101**	25,250
Principal repayments on Mortgages payable	2,544	7,077
Principal repayments on Class C LP Units	773	2,909
Debt service coverage ratio	**2.14**	2.53
FFO plus finance costs	11,711	44,140
Finance costs(1)	4,610	18,890
Finance costs coverage ratio	**2.54**	2.34

(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.

Our NCIB program was suspended in 2020 in light of market volatility and as part of our cash conservation program. The program was reactivated in March 2021 and on April 1, 2021 we commenced a new NCIB to buy back our trust units. We are entitled to purchase up to 652,525 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 3,824. 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, 2022. To date in 2021 we have purchased 81,859 units for $0.51 million under our NCIB program. The REIT 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.

The following table summarizes the trust units issued and the fully diluted number of units outstanding as at March 31, 2021 and December 31, 2020:

	March 31, 2021		December 31, 2020	
Issued and fully paid units ($000s)	**Units**	**$ Amount**	Units	$ Amount
Balance, beginning of period	**13,050,503**	**128,848**	13,133,293	129,666
Repurchase of trust units	**(38,477)**	**(380)**	(82,790)	(818)
Balance, end of period	**13,012,026**	**128,468**	13,050,503	128,848
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	**36,305,714**	**357,675**	36,344,191	358,055

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

Quarterly Results

	2021	2020				2019		
($000s except per unit amount)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	**19,486**	18,742	18,441	18,097	19,292	18,273	17,468	17,474
Net income (loss)(1)	**(24,439)**	(15,714)	(1,645)	(60,790)	83,912	(5,220)	2,310	(56)
Funds from operations (FFO)	**7,101**	6,590	5,417	6,513	6,730	6,002	6,570	6,478
Adjusted funds from operations (AFFO)(2)	**5,604**	5,144	3,485	4,636	4,862	4,232	4,860	4,776
Adjusted cash flows from operations (ACFO)	**5,749**	5,283	3,593	4,740	4,965	4,315	4,875	4,790
Per unit metrics								
Basic earnings (loss) per unit	**$ (1.87)**	$ (1.20)	$ (0.13)	$ (4.64)	$ 6.39	$ (0.40)	$ 0.18	$ —
FFO (basic)	**$ 0.24**	$ 0.23	$ 0.19	$ 0.22	$ 0.23	$ 0.21	$ 0.23	$ 0.23
AFFO (basic)(2)	**$ 0.19**	$ 0.18	$ 0.12	$ 0.16	$ 0.17	$ 0.15	$ 0.17	$ 0.17
ACFO (basic)	**$ 0.20**	$ 0.18	$ 0.12	$ 0.16	$ 0.17	$ 0.15	$ 0.17	$ 0.17
Annualized distribution rate(3)	**$ 0.420**	$ 0.360	$ 0.360	$ 0.360	$ 0.360	$ 0.675	$ 0.675	$ 0.675
FFO Payout Ratio	**43%**	40%	48%	40%	73%	81%	72%	73%
AFFO Payout Ratio	**55%**	51%	75%	57%	102%	114%	97%	99%
ACFO Payout Ratio	**53%**	50%	73%	55%	105%	112%	97%	99%
Period-end closing unit price	**$6.49**	$4.83	$3.83	$3.70	$2.89	$8.12	$7.74	$7.65
Annualized distribution yield on closing unit price (%)(3)	**6.47 %**	7.45%	9.40%	9.73%	12.46%	8.31%	8.72%	8.82%

(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 January 15, 2021 the REIT announced an increase to its distribution to $0.035. The 17% increase was following the March 20, 2020 announcement of a cut to the REIT's distribution for April 2020 to $0.03 per trust units (from $0.05625 per unit).

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 March 31, 2021 in comparison to the December 31, 2020 annual MD&A.

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 March 31, 2021 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 May 4, 2021, the REIT was in compliance with all investment guidelines and operating policies stipulated in the DOT.

Non-standard Measures

Throughout this MD&A, we refer to terms that are not specifically defined in the CPA Canada Handbook or in IFRS. These non-standard measures may not be comparable to similar measures presented by other companies. We use REALpac definitions for FFO, ACFO and AFFO.

We believe 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 March 31				
($000s)	**2021**	2020	**△%**	31-Dec-20	**△%**
Net income (loss) for the period	**(24,439)**	83,912		(15,714)	
Net finance costs	**8,059**	4,579		7,032	
Fair value adjustment on Class B LP Units	**26,768**	(84,334)		16,125	
Fair value adjustment on investment properties	**401**	6,187		2,917	
General and administrative expenses	**803**	804		764	
Amortization of operating lease incentives	**915**	1,067		891	
Straight-line rent adjustment	**120**	(251)		171	
NOI	**12,627**	11,964	6 %	12,186	4 %

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, 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 | REIT

MELCOR REAL ESTATE INVESTMENT TRUST

Condensed Interim Consolidated Financial Statements

For the three-months ended March 31, 2021

(Unaudited)

Condensed Interim Consolidated Statements of Financial Position

As at March 31, 2021

(Unaudited)

($000s)	March 31, 2021	December 31, 2020
ASSETS		
Current Assets		
Cash and cash equivalents	**4,463**	3,744
Accounts receivable	**2,598**	2,768
Other assets (note 5)	**1,583**	1,790
	8,644	8,302
Non-Current Assets		
Investment properties (note 4 and 16)	**693,042**	692,991
Other assets (note 5)	**23,670**	23,301
Derivative financial asset (note 16)	**697**	64
	717,409	716,356
TOTAL ASSETS	**726,053**	724,658
LIABILITIES		
Current Liabilities		
Revolving credit facility (note 6)	**6,497**	9,986
Accounts payable	**1,769**	1,958
Distribution payable	**1,020**	875
Accrued liabilities and other payables (note 7)	**9,883**	8,518
Class C LP Units (note 9)	**28,434**	28,932
Mortgages payable (note 8)	**38,661**	50,269
	86,264	100,538
Non-Current Liabilities		
Accrued liabilities and other payables (note 7)	**1,723**	1,706
Class B LP Units (note 10 and 16)	**104,652**	77,884
Class C LP Units (note 9)	**26,873**	27,148
Mortgages payable (note 8)	**275,205**	262,728
Convertible debentures	**64,661**	64,339
Derivative financial liabilities (note 16)	**4,304**	1,908
TOTAL LIABILITIES	**563,682**	536,251
UNITHOLDERS' EQUITY	**162,371**	188,407
TOTAL LIABILITIES AND UNITHOLDERS' EQUITY	**726,053**	724,658

See accompanying notes to the condensed interim consolidated financial statements.

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

For the three-months ended March 31

(Unaudited)

($000s)	2021	2020
Rental revenue (note 12 and 14)	**19,486**	19,292
Direct operating expenses (note 14)	**(7,894)**	(8,144)
Net rental income	**11,592**	11,148
General and administrative expenses (note 14)	**(803)**	(804)
Fair value adjustment on investment properties (note 4 and 16)	**(401)**	(6,187)
Fair value adjustment on Class B LP Units (note 10 and 16)	**(26,768)**	84,334
(Loss) income before finance costs	**(16,380)**	88,491
Interest income	**7**	27
Finance costs (note 13 and 14)	**(8,066)**	(4,606)
Net finance costs	**(8,059)**	(4,579)
Net (loss) income and comprehensive (loss) income	**(24,439)**	83,912
Basic (loss) income per trust unit (note 11)	**($1.87)**	$6.39
Diluted (loss) income per trust unit (note 11)	**($1.87)**	$0.08

See accompanying notes to the condensed interim consolidated financial statements.

Condensed Interim Consolidated Statements of Changes in Unitholders' Equity

As at March 31, 2021

(Unaudited)

($000s except unit amounts)	Number of Trust Units	Trust Units	Contributed Surplus	Retained Earnings	Total Unitholders' Equity
Balance at December 31, 2020	13,050,503	117,473	41,275	29,659	188,407
Trust units repurchased (note 11)	(38,477)	(380)	152	—	(228)
Net loss for the period	—	—	—	(24,439)	(24,439)
Distributions to unitholders	—	—	—	(1,369)	(1,369)
Balance at March 31, 2021	13,012,026	117,093	41,427	3,851	162,371

($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)	(23,264)	(230)	102	—	(128)
Net income for the period	—	—	—	83,912	83,912
Distributions to unitholders	—	—	—	(2,216)	(2,216)
Balance at March 31, 2020	13,110,029	118,061	40,895	111,331	270,287

See accompanying notes to the condensed interim consolidated financial statements.

Condensed Interim Consolidated Statements of Cash Flows

For the three-months ended March 31

(Unaudited)

($000s)	2021	2020
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net (loss) income for the period	**(24,439)**	83,912
Non cash items:		
Amortization of tenant incentives (note 5 and 12)	**915**	1,067
Straight-line rent adjustments (note 12)	**120**	(251)
Fair value adjustment on investment properties (note 4 and 16)	**401**	6,187
Fair value adjustment on Class B LP Units (note 10 and 16)	**26,768**	(84,334)
Amortization of fair value adjustment on Class C LP Units (note 13)	**—**	(32)
Accretion on convertible debentures (note 13)	**145**	136
Fair value adjustment on derivative instruments (note 13 and 16)	**1,763**	(2,823)
Amortization of deferred financing fees (note 13)	**313**	304
	5,986	4,166
Payment of tenant incentives and direct leasing costs	**(1,746)**	(1,414)
Changes in operating assets and liabilities	**1,553**	701
	5,793	3,453
INVESTING ACTIVITIES		
Investment in property improvements (note 4)	**(179)**	(115)
	(179)	(115)
FINANCING ACTIVITIES		
Change in revolving credit facility	**(3,500)**	1,747
Proceeds from mortgages payable (note 8)	**15,140**	—
Repayment of mortgages payable	**(14,230)**	(2,201)
Repayment on Class C LP Units (note 9)	**(773)**	(928)
Units repurchased (note 11)	**(228)**	(128)
Distributions to unitholders	**(1,304)**	(2,216)
	(4,895)	(3,726)
INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS DURING THE PERIOD	**719**	(388)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	**3,744**	2,280
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	**4,463**	1,892

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

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, 2020, 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 May 4, 2021.

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, 2020.

3. SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

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.

4. INVESTMENT PROPERTIES

($000s)	**Three months ended March 31, 2021**	Year ended December 31, 2020
Balance - beginning of period	**692,991**	753,483
Additions		
Property improvements	**179**	1,473
Direct leasing costs	**273**	783
Fair value adjustment on investment properties (note 16)	**(401)**	(62,748)
Balance - end of period	**693,042**	692,991

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"). Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 16.

Presented separately from investment properties is $16,122 (December 31, 2020 - $15,633) in tenant incentives and $7,548 (December 31, 2020 - $7,668) in straight-line rent adjustments (note 5). The fair value of investment properties has been reduced by these amounts.

5. OTHER ASSETS

($000s)	March 31, 2021	December 31, 2020
Current Assets		
Prepaid expense, and other	**1,583**	1,790
Non-Current Assets		
Straight-line rent adjustments	**7,548**	7,668
Tenant incentives	**16,122**	15,633
	23,670	23,301

During the three-month period, we recorded tenant incentives of $1,404 (2020 - $679) and recorded $915 (2020 - $1,067) of amortization expense respectively.

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

6. REVOLVING CREDIT FACILITY

($000s)	March 31, 2021	December 31, 2020
Amount drawn on facility	**6,500**	10,000
Unamortized transaction fees	**(3)**	(14)
	6,497	9,986

7. ACCRUED LIABILITIES AND OTHER PAYABLES

($000s)	March 31, 2021	December 31, 2020
Current Liabilities		
Tenant security deposits and pre-payments	**2,734**	3,097
Accrued finance costs	**1,633**	765
Other accrued liabilities and payables	**5,516**	4,656
	9,883	8,518
Non-Current Liabilities		
Decommissioning obligation	**1,723**	1,706

8. MORTGAGES PAYABLE

($000s)	March 31, 2021	December 31, 2020
Mortgages amortized over 15-25 years at fixed interest rates	**281,808**	293,695
Mortgages amortized over 25 years at floating interest rate (fixed via floating for fixed interest rate swaps)	**33,240**	20,443
Mortgage with interest only payments at floating interest rate of prime plus 1%	**440**	440
Unamortized deferred financing fees	**(1,622)**	(1,581)
	313,866	312,997
Current portion of mortgages payable	**(38,661)**	(50,269)
	275,205	262,728
Interest rate ranges	**(2.62%-4.20%)**	(2.58%-4.20%)

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

($000s)	March 31, 2021	December 31, 2020
Balance - beginning of period	**312,997**	291,620
Principal repayments:		
Scheduled amortization on mortgages	**(2,544)**	(7,077)
Mortgage repayments	**(11,686)**	(5,471)
New mortgages	**15,140**	32,890
Mortgage interest payments deferred	**—**	971
Deferred financing fees capitalized	**(149)**	(281)
Amortization of deferred financing fees	**108**	345
Balance - end of period	**313,866**	312,997

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.

($000s)	March 31, 2021	December 31, 2020
Class C LP Units amortized over 15-25 years at fixed interest rates	**55,307**	56,080
Current portion of Class C LP Units	**(28,434)**	(28,932)
	26,873	27,148
Effective interest rate	**3.30 %**	3.30 %

As at March 31, 2021 we had 10,785,613 Class C LP Units issued and outstanding (December 31, 2020 - 10,785,613).

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

($000s)	March 31, 2021	December 31, 2020
Balance - beginning of period	**56,080**	68,821
Principal repayments:		
Scheduled amortization on Class C LP Units	**(773)**	(2,909)
Class C LP Units repayments	**—**	(9,734)
Amortization of fair value adjustment on Class C LP Units (note 13)	**—**	(98)
Balance - end of period	**55,307**	56,080

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 March 31, 2021 and recognized a fair value loss of $26,768 during the three-month period (2020 - fair value gain of $84,334). Supplemental information on fair value measurement, including valuation technique and the key input, is included in note 16.

At March 31, 2021 there were 16,125,147 Class B LP Units issued and outstanding at a fair value of $6.49 per unit or $104,652 (December 31, 2020 - 16,125,147 at $4.83 per unit or $77,884). The REIT notes that it is currently not possible to estimate the long-term impact that COVID-19 will have on the economy, including the equity markets. As the valuation of the Class B LP Units is dependent on the trading price of the trust units, the impact on the valuation of the Class B LP Units cannot be estimated at this time and such impact could be material.

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

	March 31, 2021		December 31, 2020	
	# of units	**($000's)**	# of units	($000's)
Balance - beginning of period	**16,125,147**	**77,884**	16,125,147	130,936
Fair value adjustment on Class B LP Units (note 16)	**—**	**26,768**	—	(53,052)
Balance - end of period	**16,125,147**	**104,652**	16,125,147	77,884

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 ended on March 31, 2021. Subsequent to period end the REIT renewed its NCIB for another year, see Subsequent Event note for further details.

During the three-month period we purchased 38,477 units (2020 - 23,264) for cancellation at a cost of $228 (2020 - $128), pursuant to the NCIB. Trust units were reduced by $380 (2020 - $230) and contributed surplus increased by $152 (2020 - $102).

At March 31, 2021, our issued and outstanding trust units were 13,012,026 (December 31, 2020 - 13,050,503).

For the three-months ended March 31 ($000's except unit and per unit amounts)	**2021**	**2020**
Net (loss) income - basic	**(24,439)**	83,912
Impact of Class B LP Units fair value adjustment and distributions	**—**	(81,613)
Impact of convertible debentures interest, fair value adjustment, amortization and accretion	**—**	—
Net (loss) income - diluted	**(24,439)**	2,299
Basic weighted average trust units outstanding	**13,045,820**	13,130,127
Impact of conversion of Class B LP Units	**—**	16,125,147
Impact of conversion of convertible debentures	**—**	—
Diluted weighted average trust units outstanding	**13,045,820**	29,255,274
Basic (loss) income per trust unit	**(1.87)**	6.39
Diluted (loss) income per trust unit*	**(1.87)**	0.08

*Diluted (loss) income 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:

For the three-months ended March 31 ($000s)	**2021**	**2020**
Lease revenue	**13,701**	12,877
Variable lease revenue	**3,515**	3,793
Service revenue	**3,305**	3,438
Amortization of tenant incentives (note 5)	**(915)**	(1,067)
Straight-line adjustments	**(120)**	251
	19,486	19,292

13. FINANCE COSTS

The components of finance costs are as follows:

For the three-months ended March 31 ($000s)	2021	2020
Interest on mortgages payable and revolving credit facility	**2,815**	2,804
Interest on Class C LP Units	**449**	608
Amortization of fair value adjustment on Class C LP Units	**—**	(32)
Distributions on Class B LP Units	**1,693**	2,721
Interest on convertible debenture	**888**	888
Accretion on convertible debentures	**145**	136
Fair value adjustment on derivative instruments	**1,763**	(2,823)
Amortization of deferred financing fees	**313**	304
	8,066	4,606

Total finance costs paid during the three-month period were $5,063 (2020 - $6,104).

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:

For the three-months ended March 31 ($000s)	2021	2020
Asset Management Agreement		
Base Annual Management Fee	**479**	479
Property Management Agreement		
Monthly Fee	**595**	548
Lease Fee	**261**	168
	1,335	1,195

The Base Annual Management Fee is included in general and administrative expenses. Monthly Fees are included in direct operating expenses. Lease Fees are capitalized to investment properties. As at March 31, 2021 there was $693 (December 31, 2020 - $662) payable to Melcor related to these fees.

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

During the three-month period ended March 31, 2021, $1,693 in distributions were recorded on Class B LP Units held by Melcor (2020 - $2,721). These distributions were recorded as finance costs (note 13). As at March 31, 2021 there was $564 payable to Melcor for the March distribution (December 31, 2020 - $484 for the December distribution).

Also during the three-month period ended March 31, 2021, Melcor, as holder of all Class C LP Units, was paid $1,222 to fund principal and interest payments on the retained debt (2020 - $1,535).

c) *Rental Revenue*

For the three-month period ended March 31, 2021 we collected $191 in rental revenue from Melcor and an affiliate for use of office space (2020 - $232). 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, and accounts 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, we apply the simplified credit loss approach, which requires us to recognize lifetime expected credit losses for all accounts receivables 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 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 $548 (2020 - $802).

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.

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 $65 (December 31, 2020 - $100). 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, revolving credit facility, accounts payable and distribution payable approximate their fair values based on the short term maturities of these financial instruments.
- fair values of mortgages payable, Class C LP Units and derivative financial asset - interest rate swap 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.

		March 31, 2021				December 31, 2020	
($000s)		**Fair Value**	**Amortized Cost**	**Total Carrying Value**	**Total Fair Value**	Total Carrying Value	Total Fair Value
Non-financial assets							
Investment properties	Level 3	**693,042**	**—**	**693,042**	**693,042**	692,991	692,991
Financial liabilities							
Mortgages payable	Level 3	**—**	**313,866**	**313,866**	**315,548**	312,997	315,531
Class B LP Units	Level 2	**104,652**	**—**	**104,652**	**104,652**	77,884	77,884
Class C LP Units	Level 3	**—**	**55,307**	**55,307**	**55,307**	56,080	56,080
Convertible debentures	Level 2	**—**	**64,661**	**64,661**	**66,418**	64,339	56,779
Derivative financial liability							
Interest rate swaps	Level 3	**—**	**—**	**—**	**—**	37	37
Conversion feature on convertible debentures	Level 3	**4,304**	**—**	**4,304**	**4,304**	1,871	1,871
Derivative financial asset							
Interest rate swaps	Level 3	**697**	**—**	**697**	**697**	64	64

Investment properties

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

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

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

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

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

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

- 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 March 31, 2021. Valuations performed during the three-month period resulted in fair value losses of $401. During the year ended December 31, 2020 Melcor's internal valuation team valued investment properties of which 53 investment properties (of 53 legal phases valued) with a fair value of $716,292 were valued by qualified independent external valuation professionals during the year. Valuations performed during the year ended December 31, 2020 resulted in fair value losses of $62,748.

Weighted average stabilized net operating income for investment properties is $1,609 (December 31, 2020 - $1,613) 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.

	March 31, 2021			December 31, 2020		
	Min	**Max**	**Weighted Average**	Min	Max	Weighted Average
Capitalization rate	5.50%	10.00%	6.99%	5.50%	10.00%	7.00%
Terminal capitalization rate	5.75%	9.00%	6.92%	5.75%	9.00%	6.92%
Discount rate	6.25%	9.75%	8.02%	6.25%	9.75%	8.02%

An increase in the capitalization rates by 50 basis points would decrease the carrying amount of investment properties by $48,013 (December 31, 2020 - $47,934). A decrease in the capitalization rates by 50 basis points would increase the carrying amount of investment properties by $55,410 (December 31, 2020 - $55,306). Due to the uncertainty of the economic environment as a result of COVID-19, these estimates could be subject to significant changes and such changes could be material.

Non-derivative financial 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.

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 March 31, 2021 the fair value of the interest rate swap contract is $697 in an asset position (December 31, 2020 - $64 interest rate swap asset and $37 interest rate swap liability).

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 March 31, 2021, the fair value of the conversion feature on our convertible debentures was $4,304 (December 31, 2020 - $1,871).

Valuations performed during the three-month period resulted in fair value losses of $1,763 (2020 - fair value gains of $2,823).

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

The REIT notes that it is currently not possible to estimate the long-term impact that COVID-19 will have on the economy, including the equity and debt markets. As the valuation of the conversion feature on our convertible debentures is dependent on the historical price of the REIT's trust units and the trading price of the convertible debenture, the impact on the valuation of the conversion feature on our convertible debentures cannot be estimated at this time and such impact could be material.

Class B LP Units

Class B LP Units are remeasured to fair value on a recurring basis and categorized as Level 2 in the fair value hierarchy. The units are fair valued based on the trading price of the trust units at the period end date. At March 31, 2021 the fair value of the Class B LP Units was $104,652, resulting in a fair value loss of $26,768 for the three-month period (December 31, 2020 - fair value gain of $53,052). The REIT notes that it is currently not possible to estimate the long-term impact that COVID-19 will have on the economy, including the equity markets. As the valuation of the Class B LP Units is dependent on the trading price of the trust units, the impact on the valuation of the Class B LP Units cannot be estimated at this time and such impact could be material.

17. SUBSEQUENT EVENTS

Normal Course Issuer Bid

On April 1, 2021 we commenced a normal course issuer bid ("NCIB") which allows the REIT to purchase up to 652,525 trust units for cancellation, representing approximately 5% of the REIT's issued and outstanding trust units. The trust units may be repurchased up to maximum daily limit of 3,824. 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, 2022.

In connection with the commencement of the NCIB, the REIT also entered into an automatic purchase plan agreement with a broker to allow for the purchase of trust units under the NCIB at times when the REIT ordinarily would not be active in the market due to regulatory restrictions or self-imposed trading blackout periods.

As of May 4, 2021 there were 13,548 trust units purchased for cancellation by the REIT pursuant to the NCIB at a cost of $87.

Distributions

On April 15, 2021 we declared a distribution of $0.035 per unit for the months of April, May and June 2021. The distributions will be payable as follows:

Month	Record Date	Distribution Date	Distribution Amount
April 2021	April 30, 2021	May 17, 2021	$0.035 per unit
May 2021	May 31, 2021	June 15, 2021	$0.035 per unit
June 2021	June 30, 2021	July 15, 2021	$0.035 per unit