Press Release

for immediate distribution

Melcor REIT announces second quarter 2021 results, announces 14% increase to August and September distributions

Edmonton, Alberta | July 27, 2021

Key Figures

- Rental revenue was steady at $17.98 million in the quarter, $37.46 million year-to-date;
- Net operating income was stable at $11.58 million in the quarter, $24.21 million year-to-date;
- Adjusted cash flow from operations (ACFO) was up 5% to $4.96 million or $0.17 per unit over Q2-2020; 10% to $10.71 million or $0.37 year-to-date;
- Occupancy was flat over Q4-2020 at 87.4%;
- Distributions of $0.035 per trust unit were paid in the first and second quarters of 2021 for an ACFO year-to-date payout ratio of 57%

Melcor REIT (TSX: MR.UN) today announced results for the second quarter ended June 30, 2021. Rental revenue remained steady at $17.98 million in the quarter and $37.46 million year-to-date. Net operating income was stable at $11.58 million in the quarter and $24.21 million year-to-date. ACFO was up 5% to $4.96 million or $0.17 per unit in the quarter and 10% to $10.71 million or $0.37 year-to-date.

Darin Rayburn, President & CEO of Melcor REIT commented: "Our results in the first half of 2021 remained stable across our operations while the COVID-19 environment remained relatively unchanged. Our neighbourhood shopping centres are comprised of many of the essential services that people rely on daily, including pharmacies, grocers, banks, gas stations, and fast food drive-throughs.

Alberta, where the majority of our portfolio is located, entered Phase 3 opening on July 1st. We are excited to see restaurants and other retail establishments back at full capacity and are hopeful that continued vaccination roll-out will prevent further restrictions. However, the long-term impact of work from home mandates on our office portfolio remains uncertain and we will not fully understand the impact on retail tenants until the current Canada Emergency Rent Subsidy (CERS) program expires in September. We are pleased to report second quarter rent collections of 98% across office, retail, residential and industrial asset classes in light of the continued impact of the pandemic.

Lease renewals continue in 2021 and we completed 107,069 sf of lease extensions for a healthy retention rate of 77.1% at the half year mark. In addition, new leasing has been active across the portfolio with 53,643 sf in new deals commencing to date in 2021 and an additional 55,000 sf committed for the future. Occupancy was flat at 87.4% and has held relatively steady throughout these challenging markets.

We truly believe that the relationships that we build with our customers are a key differentiator for the REIT and help us to retain tenants for the long term. To further this strategy, we launched our MelCARE app on July 1 to modernize our customer care program.

During the quarter, we joined the Edmonton Corporate Climate Leaders Program. We are proud to show that sustainability and good business go hand-in-hand. Through our work with Green Economy Canada and the City of Edmonton's Corporate Climate Leaders Program, we have committed to measure our greenhouse gas emission footprint, develop an action plan and set reduction targets for 2025 and 2035. We are currently developing our greenhouse gas inventory with a target completion of December 2021. We will publicly report on our progress each year. Along with over 300 Green Economy Leaders across Canada, we are demonstrating that a more sustainable economy is possible.

We continue to focus on the fundamentals of real estate and to work with our clients and all stakeholders to recover and grow our business. After careful consideration, we are pleased to announce a 14% increase to our distribution."

Q2-2021 Highlights:

Our portfolio performance remained stable through the first half of 2021. We remain proactive in renewing existing tenants, resulting in a healthy retention rate of 77.1% at quarter-end. We also continue to pursue new tenant opportunities and had 53,643 sf in new deals commence to date in 2021. Occupancy dropped slightly to 87.4% compared to year end.

Highlights of our performance in the second quarter include:

FINANCIAL HIGHLIGHTS

- Revenue was stable at $17.98 million (YTD: $37.46 million). Year-to-date other revenue includes $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. Year to date, this unusual other revenue was partially offset by lower lease revenue and reduced straight-line rent. Net operating income (NOI) was flat in the quarter and up 2% year-to-date 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. The 43% increase in the trading price of the REIT's units compared to December 31, 2020 resulted in a $33.38 million year-to-date 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 steady at $6.57 million or $0.23 per unit, compared to $6.51 million or $0.22 in Q2-2020. Year-to-date FFO was up 3% to $13.67 million or $0.47 per unit, a direct result of higher NOI.
- ACFO was up 5% to $4.96 million or $0.17 per unit in Q2-2021 (2020 - $4.74 million or $0.16 per unit) due to increased FFO and lower straight-line rent adjustments. Year-to-date ACFO was up 10% to $10.71 million or $0.37 per unit due to higher other revenue. Management believes that ACFO best reflects our cash position and therefore our ability to pay distributions.
- We completed $44.53 million on four re-financings year-to-date (net $10.55 million) at a weighted average rate of 2.77%.
- We extended our $35.00 million revolving credit facility to June 1, 2024 with our existing lender syndicate. The facility includes an accordion feature, which provides up to $15.00 million in additional borrowing capacity, subject to lender approval.
- As at June 30, 2021 we had $4.65 million in cash and $31.50 million in undrawn liquidity under our revolving credit facility.

OPERATING HIGHLIGHTS

- We continued to execute on our proactive leasing strategy to both retain existing tenants and attract new ones. We completed lease renewals representing 107,069 sf (including holdovers) for a retention rate of 77.1% at June 30, 2021. A further 95,000 sf of future 2021 renewals have been committed. New leasing has been steady across the portfolio with 53,643 sf in new deals commencing to date in 2021 and an additional 54,000 sf committed for future occupancy.

CREATING UNITHOLDER VALUE

- We paid distributions of $0.035 per trust unit in April, May and June for a quarterly payout ratio of 62% based on ACFO and 47% based on FFO (Q2-2020 - distributions of $0.03 for a quarterly payout ratio of 55% and 40% 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. We may repurchase a maximum of 3,824 units daily. 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 85,683 units at a cost of $0.53 million.

SUBSEQUENT EVENT

- On July 15, 2021 we declared a distribution of $0.035 per trust unit for the month of July 2021. The July distribution is payable on August 16, 2021 to unitholders on record July 30, 2021.
- We are pleased to announce a 14% increase to the monthly distribution. Today we declared a distribution of $0.04 per trust unit for the months of August and September 2021. The August distribution is payable on September 15, 2021 to unitholders on record August 31, 2021. The September distribution is payable on October 15, 2021 to unitholders on record September 30, 2021.

Financial Highlights

	Three months ended June 30			**Six-months ended June 30**		
($000s)	**2021**	2020	△%	**2021**	2020	△%
Non-standard KPIs						
Net operating income (NOI)	**11,582**	11,739	(1)%	**24,209**	23,703	2 %
Same-asset NOI	**11,582**	11,739	(1)%	**24,209**	23,703	2 %
Funds from operations (FFO)	**6,570**	6,513	1 %	**13,671**	13,243	3 %
Adjusted funds from operations (AFFO)	**4,811**	4,636	4 %	**10,415**	9,498	10 %
Adjusted cash flow from operations (ACFO)	**4,956**	4,740	5 %	**10,705**	9,706	10 %
Rental revenue	**17,977**	18,097	(1)%	**37,463**	37,389	— %
Income before fair value adjustments	**3,941**	4,152	(5)%	**8,434**	7,094	19 %
Fair value adjustment on investment properties(1)	**531**	(51,109)	nm	**130**	(57,296)	nm
Cash flows from operations	**1,999**	2,952	(32)%	**7,792**	6,405	22 %
Distributions to unitholders	**1,362**	1,174	16 %	**2,731**	3,390	(19)%
Distributions(2)	**$0.11**	$0.09	22 %	**$0.21**	$0.26	(19)%
Per Unit Metrics						
Net (loss) income						
Basic	**($0.13)**	$0.18		**($2.23)**	$1.76	
Diluted	**($0.13)**	$0.18		**($2.23)**	($1.50)	
Weighted average number of units for net (loss) income (000s):(3)						
Basic	**12,975**	13,091	(1)%	**13,010**	13,112	(1)%
Diluted	**12,975**	13,091	(1)%	**13,010**	29,237	(56)%
FFO						
Basic	**$0.23**	$0.22		**$0.47**	$0.45	
Diluted	**$0.21**	$0.21		**$0.44**	$0.43	
Payout ratio	**47 %**	40 %		**45%**	57%	
AFFO						
Basic	**$0.17**	$0.16		**$0.36**	$0.32	
Payout ratio	**64 %**	57 %		**59%**	80%	
ACFO						
Basic	**$0.17**	$0.16		**$0.37**	$0.33	
Payout ratio	**62 %**	55 %		**57%**	78%	
Weighted average number of units for FFO, AFFO and ACFO (000s):(4)						
Basic	**29,100**	29,216	— %	**29,135**	29,237	— %
Diluted	**36,268**	36,384	— %	**36,304**	36,406	— %

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 from January to March 2020 and at a rate of $0.03 per unit from April 2020 onward.*
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.*

	Jun 30, 2021	Dec 31, 2020	△%
Total assets ($000s)	**728,417**	724,658	1 %
Equity ($000s)[1]	**288,209**	289,055	— %
Debt ($000s)[2]	**447,139**	449,658	(1)%
Weighted average interest rate on debt	**3.64 %**	3.68 %	(1)%
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]	**2.51**	2.34	7 %
Debt service coverage ratio[4]	**2.08**	2.53	(18)%

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, liability held for sale (as applicable) 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 of the MD&A 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 of the MD&A for further discussion and analysis.*

Operational Highlights

	Jun 30, 2021	Dec 31, 2020	△%
Number of properties	**39**	39	— %
Gross leasable area (GLA) (sf)	**3,216,086**	3,208,298	— %
Occupancy (weighted by GLA)	**87.4%**	87.6%	—%
Retention (weighted by GLA)	**77.1%**	82.8%	(7%)
Weighted average remaining lease term (years)	**3.95**	3.96	— %
Weighted average base rent (per sf)	**$16.61**	$16.67	— %

MD&A and Financial Statements

Information included in this press release is a summary of results. This press release should be read in conjunction with the REIT's Q2-2021 quarterly report to unitholders. The REIT's consolidated financial statements and management's discussion and analysis for the three and six-months ended June 30, 2021 can be found on the REIT's website at www.MelcorREIT.ca or on SEDAR (www.sedar.com).

Conference Call & Webcast

Unitholders and interested parties are invited to join management on a conference call to be held July 28, 2021 at 11:00 AM ET (9:00 AM MT). Call 416-915-3239 in the Toronto area; 1-800-319-4610 toll free.

The call will also be webcast (listen only) at https://www.gowebcasting.com/11421. A replay of the call will be available at the same URL shortly after the call is concluded.

About Melcor REIT

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

Non-standard Measures

NOI, FFO, AFFO and ACFO are key measures of performance used by real estate operating companies; however, they are not defined by International Financial Reporting Standards (IFRS), do not have standard meanings and may not be comparable with other industries or income trusts. These non-IFRS measures are defined and discussed in the REIT's MD&A for the quarter ended June 30, 2021, which is available on SEDAR at www.sedar.com.

Forward-looking Statements:

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

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