Press Release

for immediate distribution

Melcor REIT announces third quarter 2021 results

Edmonton, Alberta | November 2, 2021

Highlights

- Rental revenue was steady at $18.09 million in the quarter, $55.55 million year-to-date;
- Net operating income (NOI) grew 13% to $11.92 million in the quarter, 5% to $36.12 million year-to-date;
- Funds from operations (FFO) grew 23% to $6.64 million or $0.23 per unit in the quarter, 9% to $20.31 million or $0.70 per unit year-to-date;
- Adjusted cash flow from operations (ACFO) grew 43% to $5.13 million or $0.18 per unit per unit in the quarter, 19% to $15.84 million or $0.54 per unit year-to-date;
- Occupancy was up slightly over Q4-2020 at 88.8%;
- Distributions of $0.035 per unit were paid in January through July and increased by 14% to $0.04 for August and September for a year-to-date ACFO payout ratio of 60%

Melcor REIT (TSX: MR.UN) today announced results for the third quarter ended September 30, 2021. Rental revenue remained steady at $18.09 million in the quarter and $55.55 million year-to-date. NOI grew 13% to $11.92 million in the quarter and 5% to $36.12 million year-to-date. ACFO grew 43% to $5.13 million or $0.18 per unit in the quarter and 19% to $15.84 million or $0.54 year-to-date. Positive leasing performance contributed to growth in NOI, FFO, AFFO and ACFO in both the quarter and year-to-date; however, we caution that the comparative quarter (Q3-2020) was atypical as described below, making direct comparison less meaningful than in a typical quarter.

Darin Rayburn, President & CEO of Melcor REIT commented: "The REIT's results in 2021 to date remain stable, trending towards positive, despite ever-changing business restrictions due to COVID-19. With the implementation of the restrictions exemption program in Alberta in mid-September, our admiration goes to our tenants for adapting, again, to new operating rules.

Our results reflect our tenants' tenacity with 99% of rent collected in both the quarter and year-to-date. However, the long-term impact of restrictions and the eventual cessation of government support programs is yet to be seen.

We have been pleased with the volume of new leasing activity across the portfolio. We have signed 114,358 sf of new and 179,164 sf of renewed leasing (including holdovers) and retained 80.0% of expiring leases year-to-date. We have commitment on an additional 57,000 sf of future renewals and 25,000 sf in new deals. While the market is slightly soft, activity and opportunity across our portfolio in all asset classes continues.

On July 1st we launched the MelCARE app – our improved customer care program. Our commitment to improving our customer experience sets us apart and helps us retain tenants for the long term.

As participants in the Edmonton Corporate Climate Leaders Program, we have begun benchmarking our energy usage with the intention of setting targets for climate action including a carbon footprint reduction plan. 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.

On October 15 we announced a $0.04 per unit distribution for the months of October, November and December, unchanged from previous months.

During the quarter I announced my retirement as CEO of Melcor REIT and Melcor Developments Ltd. at the end of 2021. I've greatly enjoyed the 8 years spent with the REIT in addition to 19 great years at Melcor. The formation of the REIT was a particularly proud moment for my colleagues and me. It was a difficult decision, but the time is right for me to retire to pursue personal interests. I remain a REIT unitholder and look forward to the REIT's continued evolution."

Board Chair Ralph Young commented: "The REIT board is exceptionally grateful to Darin for his instrumental role in the REIT's formation and growth. Darin has had a significant impact on the REIT since inception as our founding CEO, Trustee, Melcor CEO and current REIT CEO.

On behalf of the REIT board, I wish to thank Darin for his many contributions to our business success and for his loyal and dedicated service to the Trust and its unitholders. We wish him the very best in his future endeavours."

Highlights:

Our portfolio performance improved in the third quarter, with sequential NOI growth of 3%. We continue to proactively renew existing tenants, resulting in a healthy retention rate of 80.0% at quarter-end. We also continue to pursue new tenant opportunities and commenced 60,715 sf in new leases in Q3-2021 and 114,358 sf year-to-date. Occupancy is up slightly at 88.8% compared to year-end. This positive leasing performance contributed to growth in NOI, FFO, AFFO and ACFO in both the quarter and year-to-date; however we caution that the Comparative Quarter was atypical as described below and makes direct comparison less meaningful than in a typical quarter.

The factors that contributed most significantly to Q3-2021 and year-to-date results compared to the previous year are as follows:

- **2020 Comparison:** Q3-2020 results were significantly impacted by COVID-19 and as such, comparison of the two quarters and year-to-date results requires highlighting the following significant contributing factors to Q3-2020:
    - Significant bad debt writedowns due to the Canada Emergency Commercial Rent Assistance (CECRA) program ($0.67 million) combined with non-CECRA bad debt writedowns ($1.31 million). We are uncertain about the impact that the eventual cessation of government support programs (CERS and CEWS subsidy programs) will have on our ability to collect rent in future periods.
    - Cash conservation measures employed resulted in lower overall spend and contributed to lower expenditures on maintenance, wages and general operating expenses.
    - 47% reduction in our distribution rate effective April 2020 and maintained for the remainder of 2020 at $0.03 per unit. We have subsequently increased the distribution rate twice for a total increase of 33% compared to December 2020.
    - Lease restructures were entered into, providing tenants with short-term relief, resulting in lower base revenue.
- **Non-cash Fair Value Adjustments:** Non-cash fair value adjustments on REIT units and investment properties often cause dramatic swings in results. The change in unit price has a counter-intuitive impact on net income, as an increase in unit value decreases net income. The 42% increase in the trading price of the REIT's units compared to December 31, 2020 resulted in a $32.57 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 revaluation of the entire portfolio in Q2-2020. This event had a significant impact to net income in both the current and prior periods, making comparison less meaningful, and a reason management prefers FFO and ACFO as better measures of our performance.
- **Early Termination (Early Termination event)**: In Q1-2021, we received $1.00 million for the early lease termination of a fast food chain occupying 6,384 sf in Leduc Common. The tenant made up 0.4% of 2020 base rent. Early termination also resulted in $0.19 million in reduced straight-line rent (SLR) adjustments.
- **Distribution Increase:** During the quarter, we increased our monthly distribution by 14% to $0.04 per unit. Since December 2020, we have increased our monthly distribution by 33%.

FINANCIAL HIGHLIGHTS

Financial highlights of our performance in the third quarter and year-to-date include:

- Revenue was steady in the quarter at $18.09 million and year-to-date at $55.55 million. Year-to-date, additional revenue from the Early Termination event was partially offset by lower lease revenue and lower SLR due to COVID-related lease restructurings.
- Net operating income (NOI) was up 13% in Q3-2021 and 5% year-to-date due to lower bad debt expenses (Comparative Quarter) and the Early Termination event.
- FFO was up 23% to $6.64 million or $0.23 per unit, compared to $5.42 million or $0.19 per unit in Q3-2020. Year-to-date FFO was up 9% to $20.31 million or $0.70 per unit, a direct result of higher NOI. Management believes FFO is a better reflection of our true operating performance.
- ACFO was up 43% to $5.13 million or $0.18 per unit in Q3-2021 (Q3-2020 - $3.59 million or $0.12 per unit) due to increased FFO and fluctuation in SLR. Year-to-date ACFO was up 19% to $15.84 million or $0.54 per unit due to the Early Termination event impact on other revenue. Management believes that ACFO best reflects our cash flow and therefore our ability to pay distributions.

- Net income in the current and comparative period is significantly impacted by the Non-cash Fair Value Adjustments described above.
- We completed six new mortgages at a weighted average interest rate of 2.77% for proceeds of $63.99 million year-to-date (net $15.90 million).
- As at September 30, 2021 we had $5.65 million in cash and $35.00 million in undrawn liquidity under our revolving credit facility.

OPERATING HIGHLIGHTS

We have been pleased with the volume of new leasing activity across the portfolio. We have signed 293,522 sf of new and renewed leasing (including holdovers) and retained 80.0% of expiring leases year-to-date. Future leasing is promising, with commitment on an additional 57,000 sf of future renewals and 25,000 sf in new deals. While certain markets remain soft, activity and opportunity continues across our portfolio. New leases commenced in Q3-2021 include 39,000 sf of temporary seasonal space that will be not produce long-term cash flows.

CREATING UNITHOLDER VALUE

We increased our August and September distributions by 14% to $0.04 per unit compared to $0.035 per trust unit January through July. The quarterly payout ratio was 65% based on ACFO and 50% based on FFO (Q3-2020: distribution of $0.03 per month; 73% ACFO and 48% FFO).

Financial Highlights

($000s)	Three months ended September 30 **2021**	2020	△%	Nine months ended September 30 **2021**	2020	△%
Non-standard KPIs						
Net operating income (NOI)	**11,915**	10,567	13 %	**36,124**	34,270	5 %
Same-asset NOI	**11,915**	10,567	13 %	**36,124**	34,270	5 %
Funds from operations (FFO)	**6,639**	5,417	23 %	**20,310**	18,660	9 %
Adjusted funds from operations (AFFO)	**4,982**	3,485	43 %	**15,397**	12,983	19 %
Adjusted cash flow from operations (ACFO)	**5,131**	3,593	43 %	**15,836**	13,299	19 %
Rental revenue	**18,089**	18,441	(2)%	**55,552**	55,830	— %
Income before fair value adjustments	**3,668**	3,054	20 %	**12,102**	10,148	19 %
Fair value adjustment on investment properties(1)	**2,535**	(2,535)	nm	**2,665**	(59,831)	nm
Cash flows from operations	**4,540**	4,549	— %	**12,332**	10,954	13 %
Distributions to unitholders	**1,491**	1,174	27 %	**4,222**	4,565	(8)%
Distributions(2)	**$0.12**	$0.09	33 %	**$0.33**	$0.35	(6)%
Per Unit Metrics						
Net (loss) income						
Basic	**$0.58**	($0.13)		**($1.66)**	$1.64	
Diluted	**$0.27**	($0.13)		**($1.66)**	($1.44)	
Weighted average number of units for net (loss) income (000s):(3)						
Basic	**12,965**	13,051	(1)%	**12,995**	13,083	(1)%
Diluted	**36,259**	13,051	178 %	**12,995**	29,208	(56)%
FFO						
Basic	**$0.23**	$0.19		**$0.70**	$0.64	
Diluted	**$0.22**	$0.18		**$0.66**	$0.61	
Payout ratio	**50 %**	48 %		**47%**	55%	
AFFO						
Basic	**$0.17**	$0.12		**$0.53**	$0.44	
Payout ratio	**67 %**	75 %		**61%**	78%	
ACFO						
Basic	**$0.18**	$0.12		**$0.54**	$0.46	
Payout ratio	**65 %**	73 %		**60%**	77%	
Weighted average number of units for FFO, AFFO and ACFO (000s):(4)						
Basic	**29,090**	29,176	— %	**29,120**	29,208	— %
Diluted	**36,259**	36,344	— %	**36,288**	36,376	— %

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 per month from January to July and at a rate of $0.04 per unit for August and September. 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.*

	Sep 30, 2021	Dec 31, 2020	△%
Total assets ($000s)	**733,330**	724,658	1 %
Equity ($000s)[(1)]	**288,209**	289,055	— %
Debt ($000s)[(2)]	**445,817**	449,658	(1)%
Weighted average interest rate on debt	**3.60 %**	3.68 %	(2)%
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)]	**2.48**	2.34	6 %
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 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 24 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 24 of the MD&A for further discussion and analysis.*

Operational Highlights

	Sep 30, 2021	Dec 31, 2020	△%
Number of properties	**39**	39	— %
Gross leasable area (GLA) (sf)	**3,216,175**	3,208,298	— %
Occupancy (weighted by GLA)	**88.8%**	87.6%	1%
Retention (weighted by GLA)	**80.0%**	82.8%	(3%)
Weighted average remaining lease term (years)	**3.82**	3.96	(4)%
Weighted average base rent (per sf)	**$16.44**	$16.67	(1)%

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 Q3-2021 quarterly report to unitholders. The REIT’s consolidated financial statements and management’s discussion and analysis for the three and nine-months ended September 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 November 3, 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/11510. 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 September 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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