

ANNUAL REPORT

2022



2013 • 2023

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FACTS & DATA

39
ASSETS

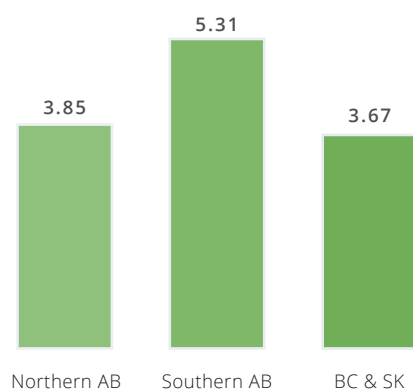
\$730.8M
ASSET FAIR VALUE

\$74.1M
REVENUE

78%
ACFO PAYOUT RATIO²

1. All data as at December 31, 2022
2. Non-GAAP financial ratio. Refer to the Non-GAAP Measures section on page 27 for further information

WEIGHTED AVERAGE LEASE TERM REMAINING (YEARS)



GROSS LEASABLE AREA EXPIRING (%)



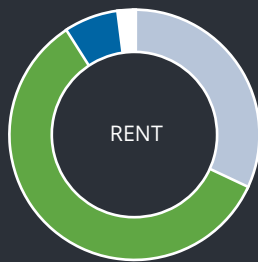
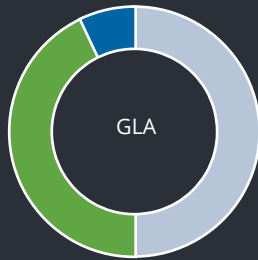
MELCOR | REIT

Melcor REIT is an unincorporated, open-ended real estate investment trust. We own, acquire, manage and lease quality retail, office and industrial income generating properties. Following the sale of a property on February 1, 2023, our portfolio is currently made up of interests in 38 properties representing approximately 3.1 million square feet of gross leasable area located in and around Edmonton, Calgary, Lethbridge, Grande Prairie and Red Deer, Alberta; Regina, Saskatchewan; and Kelowna, British Columbia.

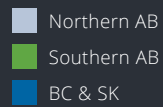
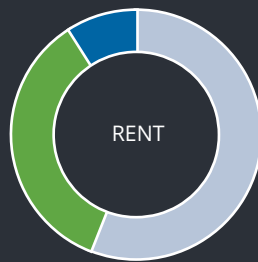
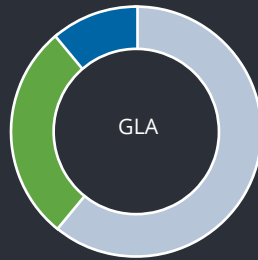
Backed by Melcor Development's 100 year history, Melcor REIT was borne out of a proud tradition of real estate excellence in western Canada. Our growth potential is a true competitive advantage, with the right to acquire Melcor's pipeline of newly constructed, high quality retail, industrial and office projects. Subsequent to the initial acquisition, we have vended-in over 1 million sf from Melcor, and there is a further 4.4 million sf in current and future projects to be built over the next 5 to 15 years.

KEY METRICS

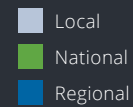
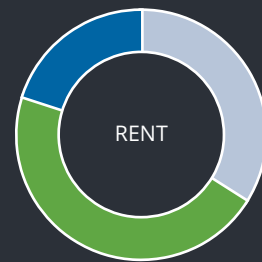
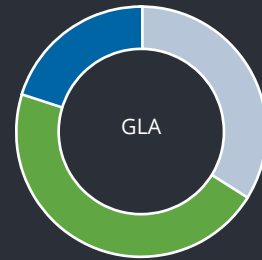
BY PROPERTY TYPE



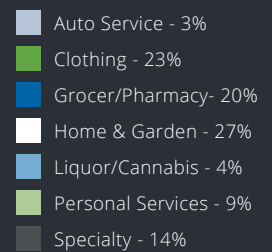
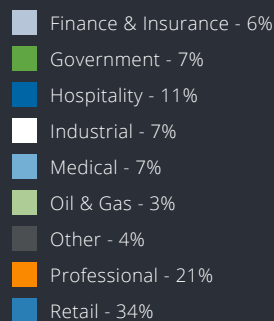
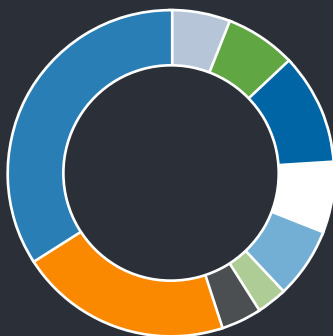
BY REGION



BY TENANT PROFILE



GLA BY TENANT INDUSTRY



MESSAGE FROM THE CHAIR

RALPH YOUNG



I am pleased to report on a significant and successful year for Melcor REIT. We celebrate the REIT's 10th year of business on May 1, 2023. An anniversary is an opportunity to reflect on our progress towards our goal of providing a reliable platform for investing in real estate assets. The REIT has faced the headwinds of significant economic challenge over the past 10 years – oil & gas volatility, loss of favour of Alberta-based companies in the capital markets and a global pandemic to name a few – yet has consistently posted stable results.

In 2022, we began to see signs of market stability after two years of managing through pandemic uncertainty and its impact on our tenants' businesses as well as the broader economy. By mid-year, central banks began to steadily increase interest rates to manage rising inflation, putting a damper on the debt financing environment, and subduing consumer and business optimism.

The REIT successfully handled these challenges, AND paid out the 5.25% Convertible Debenture using its operating line of credit, increased distributions by 8%, and (subsequent to year end) sold a property for a good return on investment for unitholders, and re-negotiated its line of credit for increased capacity. The REIT maintains a strong financial position with a comfortable payout ratio and reasonable financial leverage.

The resilience of the team to focus on and achieve stability though a 10 year span that has been anything but stable cannot be over-emphasized. The Melcor team that takes care of the day-to-day management of the REIT is to be highly commended for their performance over the past decade, and I thank them on behalf of the board and all unitholders.

I also thank our Trustees for their diligent and effective governance. Our Trustees continue to provide a high level of skill and judgment and to serve the interests of unitholders with integrity. We recently welcomed Naomi Stefura as a Trustee. Naomi has been instrumental to the REIT since inception, and she has a wealth of knowledge about the REIT and its history.

Collectively your REIT team, including our major unitholder, have considerable experience with the ups and downs of economic cycles. Of special note, Melcor is celebrating its 100th anniversary this year. This experienced team continues to demonstrate the aptitude and good sense to successfully navigate and operate through challenging times.

The REIT continues to prudently manage its real estate assets in this new inflationary environment, which is contributing to capital market volatility and higher financing and operating costs. We are also seeing modest growth in tenant demand in a highly competitive leasing market. The Alberta economy remains well positioned to recover from current challenges with a strong provincial financial position, strong employment growth and strong in migration.

A handwritten signature in black ink, appearing to read 'Ralph Young', with a stylized flourish at the end.

MESSAGE FROM THE CEO

ANDREW MELTON

It is my privilege to report to you on the REIT's results for 2022. The macro economic environment of 2022 was one of geopolitical conflict, rapidly rising interest rates, and post-pandemic normalization.

OPERATING RESILIENCE

Despite this, and everything that has been thrown our way over the past decade, the REIT keeps doing its thing: posting stable results – the results that you can expect from an organization that is built to last, based on 100 years of real estate experience.

With rising interest rates, we proactively reviewed upcoming mortgage renewals to assess the best time to refinance and completed six mortgage refinancings at 4.43% interest. We also paid out the 2017 Debenture using our operating facility. Subsequent to the year, we amended our operating facility, increasing our available credit to \$50 million for improved liquidity. We also completed the strategic sale of a property and used the proceeds to pay off the outstanding mortgage balance, with the remaining net cash going towards our credit facility.

THE RIGHT TENANTS

Leasing space is about more than filling up vacancies – it's about finding the right tenants. Choosing the right tenants for the right properties is an important aspect of successful portfolio development and management. By carefully screening and selecting tenants who are a good fit, we can ensure a positive and productive relationship. Tenants who feel that their needs are met and their expectations exceeded are much more likely



to remain loyal to a property and renew leases when the time comes. As a true testament to this concept, some of our tenants have been with the REIT (and previous owner Melcor) for over 30 years. And some, who've outgrown their space, choose to continue their relationship with Melcor in a new (to them) property that better meets their needs. Our retention rate for 2022 was a healthy 86.1% and occupancy is also trending higher at 88.1% with committed occupancy of 89.9%

SUSTAINABILITY

Our commitment to sustainability is paramount, and we believe that it is essential to ensure that our business practices align with our sustainability goals. By incorporating ESG principles into our decision-making processes, we can ensure that we are considering the impact of our actions on the environment, our tenants, our stakeholders, and the broader community.

To further our commitment to sustainability, we joined the Edmonton Corporate Climate Leaders Program in 2021. Through this program, we completed a benchmark of our energy usage, and we are now in the process of setting targets for climate action.

We recognize that climate change is one of the most pressing global challenges, and we believe that it is our responsibility to do our part in mitigating its impact. We hope to have a positive impact on the environment and contribute to a more sustainable future by implementing identified measures to reduce our carbon footprint.

IN APPRECIATION

Maintaining stable operations in an environment that is anything but wouldn't be possible without the diligent and unwavering commitment of the Melcor teams that take care of the REIT's properties, tenants, and business. I am grateful to our:

- Property management, property administration and building operations teams, for always delivering exceptional service to our tenants, and for caring for and working with our tenants through the difficult challenge and uncertainties that the global pandemic presented. You are the face and voice of the REIT to our tenants.
- Leasing team for bringing in some exceptional tenants despite challenging macro economic

conditions. No matter the external environment, our leasing team can be counted on to deliver new lease deals. Thank you for building such strong relationships with our brokers and tenants.

- Melcor corporate teams that provide daily support to the REIT: accounting and finance, human resources, marketing and IT. You keep things running smoothly for the REIT.

Of note, our building operations team handled over 2,600 service requests using our MelCARE app. And our leasing team continued to execute our proactive leasing strategy to retain existing and attract new tenants. They completed over 133,900 sf in new leasing in 2022 and retained over 368,000 sf in renewals and holdovers. Occupancy was up 1% to 88.1% at the end of 2022, with future committed occupancy almost 2% higher at 89.9%.

I am also grateful to our board of Trustees for their sage counsel and advice over the years, and to our unitholders for your ongoing support.



OUTLOOK

We continue to monitor and respond to market demand and trends in commercial real estate and to focus on exceptional customer care as a differentiating factor in a market where we know our tenants have many options.

Alberta, our main market, has undergone dramatic changes due to fluctuating oil price, pandemic related declines in economic activity, and fluctuations in net migration, which is currently trending to the highest in migration levels of the past decade.

Our portfolio continues to face competitive pressure due to the significant supply of office property in downtown Edmonton. This pressure contributes to increased costs associated with renewals and securing new leases as evidenced by increasing tenant incentives and direct leasing costs over the past several years.

Our tenants include a diversified mix of national, regional and local businesses operating in a variety of industries. This diversified tenant base helps mitigate our exposure to negative trends occurring in any one sector.

The financing environment, including commercial lending, is characterized by rising interest rates. We continue to proactively look at upcoming renewals to assess the best time to refinance properties, and work with our lenders to re-finance debts at market competitive terms.

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

With a strong, diversified portfolio and unwavering focus on real estate fundamentals and client relationships, we remain well positioned for the future.



PROPERTIES MAP

Our goal is to provide stable monthly cash distributions to unitholders by owning and managing high quality properties and a diverse portfolio.





OFFICE BUILDINGS	LOCATION	GLA	OCCUPANCY
100 Street Place	Edmonton	44,295	85%
10117 Jasper Avenue	Edmonton	132,373	56%
Birks Building	Edmonton	35,106	88%
Capilano Centre	Edmonton	45,487	66%
Crowfoot Building	Calgary	67,882	80%
Executive Terrace	Regina	41,982	87%
Kensington Road	Calgary	23,932	100%
LFS Building	Lethbridge	33,196	100%
Melcor Centre	Lethbridge	449,862	89%
Melton Building	Edmonton	114,612	68%
Parliament Place	Regina	28,663	86%
Princeton Place	Edmonton	60,613	66%
Richter Street	Kelowna	28,978	89%
Select Building	Edmonton	23,432	100%
Stanley Buildings	Edmonton	34,976	88%
Sterling Centre	Edmonton	69,491	78%
Trail Business Centre	Edmonton	77,296	52%
Village at Blackmud Creek	Edmonton	48,335	94%
Westcor Building	Edmonton	73,373	71%
Westgate Centre	Edmonton	75,087	100%
White Oaks Square	Edmonton	30,521	83%

RETAIL BUILDINGS	LOCATION	GLA	OCCUPANCY
Chestermere Station	Chestermere	84,613	99%
Coast Home Centre	Edmonton	59,854	68%
Kingsview Market	Airdrie	99,987	98%
Leduc Common	Leduc	283,346	98%
Liberty Crossing	Red Deer	64,240	100%
Market Mall	Regina	42,912	98%
Melcor Crossing	Grande Prairie	283,111	87%
Staples Distribution	Calgary	56,084	100%
The District	Calgary	23,238	100%
Towers Mall	Regina	113,493	100%
University Park Mall	Regina	41,380	83%
Village at Blackmud Creek	Edmonton	9,046	87%
West Henday Promenade	Edmonton	77,970	100%
Westgrove Common	Spruce Grove	29,384	100%
White Oaks Square	Edmonton	127,824	97%

INDUSTRIAL BUILDINGS	LOCATION	GLA	OCCUPANCY
Lethbridge Industrial	Lethbridge	49,005	100%
Telford	Leduc	143,118	100%
TKE Building	Edmonton	15,968	100%

LAND LEASE COMMUNITY	LOCATION	GLA	OCCUPANCY
Watergrove	Calgary	308	100%

CORPORATE GOVERNANCE

We are committed to effective corporate governance practices as a core component of our operating philosophy. Strong governance practices lay the foundation for a sustainable company and long-term value creation for our unitholders. As governance practices evolve, we periodically review, evaluate and enhance our governance program. Here are a few highlights of our program:

INDEPENDENCE

The majority of our trustees are independent. Committees are comprised of 100% independent trustees. The independent trustees meet *in camera* (without management and related trustees) for a portion of each in person meeting held. As our chairman is related, we have appointed a lead trustee, Larry Pollock, who is independent. Mr. Pollock chairs the *in camera* sessions and ensures that the board conducts itself in accordance with good governance practices. Each of the arrangements with Melcor (Asset Management, Property Management and Development and Opportunities Agreements) require the agreement of the majority of independent trustees, providing independent oversight on all transactions to represent the interests of minority unitholders. These agreements were reviewed, with amendments subsequently proposed and approved by unitholders at our 2022 annual meeting.

ALIGNMENT WITH UNITHOLDERS

Effective July 1, 2023, all trustees and officers are required to hold the dollar-value equivalent of two times the annual trustee retainer, ensuring alignment with unitholder interests and a focus on long-term value creation. Additional information on our governance practices can be found in our 2023 Information Circular.

INTEGRITY: THE HEART OF OUR BUSINESS

The highest standard of ethical conduct has always been at the heart of our operating philosophy. All employees, trustees and officers follow our Code of Business Conduct and Ethics, which governs the work environment, regulatory compliance and the protection of our assets and reputation. The Code can be found on our website at [MelcorREIT.ca](https://www.melcorreit.ca). Melcor employees who manage our properties follow the Melcor Code of Business Conduct & Ethics, which is essentially the same.

STRATEGIC PLANNING PROCESS

The board ensures that we establish a solid strategy designed to optimize unitholder value. This process includes active consultation with management on the issues, business environment, assumptions, goals and financial budgets that underpin the strategy and ensures that risk levels are appropriate. To keep the board fully informed and engaged in the strategic issues and critical risks of our business, one meeting each year is dedicated to the review of our strategies to manage risk, maintain stable monthly cash distributions, and build a sustainable business based on high quality properties and a diverse portfolio.

BOARD OF TRUSTEES



Carolyn Graham
FCPA, FCA, ICD.D

Edmonton, Alberta, Canada

Independent
Corporate Director

Trustee since	2019
Attendance	100%
Compensation	\$50,000
Unitholdings	10,000
Committees ¹	Audit ² , Governance



Richard Kirby
MBA, LLB, ICD.D

Edmonton, Alberta, Canada

Independent
President, Midnight Sun Financial

Trustee since	2019
Attendance	100%
Compensation	\$37,500
Unitholdings	—
Committees ¹	Audit, Governance



Bernie Kollman
ICD.D

Edmonton, Alberta, Canada

Independent
Corporate Director

Trustee since	2021
Attendance	100%
Compensation	\$37,500
Unitholdings	10,000
Committees ¹	Audit, Governance



Andrew Melton

Calgary, Alberta, Canada

Related³
CEO, Melcor REIT

Trustee since	2013
Attendance	100%
Compensation	\$—
Unitholdings	144,025
Committees ¹	—



Larry Pollock

Edmonton, Alberta, Canada

Independent (Lead Trustee)
Corporate Director

Trustee since	2013
Attendance	100%
Compensation	\$51,500
Unitholdings	85,000
Committees ¹	Audit, Governance ²



Naomi Stefura

Edmonton, Alberta, Canada

Related³
EVP & CFO, Melcor Developments

Trustee since	2022
Attendance	n/a
Compensation	\$—
Unitholdings	21,560
Committees ¹	—



Ralph Young

Edmonton, Alberta, Canada

Related³ (Chair)
Corporate Director

Trustee since	2013
Attendance	100%
Compensation	\$40,000
Unitholdings	26,800
Committees ¹	—

NOTES

1. All trustees are members of the Investment Committee, which did not meet in 2022.
2. Denotes committee chair.
3. Mr. Melton and Mr. Young are directors and Ms. Stefura is the Executive Vice President and Chief Financial Officer of Melcor Developments, which owns 55.4% of the voting units of the REIT. They are the Melcor nominees to the REIT board.

ENVIRONMENTAL COMMITMENT SOCIAL RESPONSIBILITY & GOVERNANCE

OUR COMMITMENT

The REIT is committed to corporate sustainability — in environmental practice, social responsibility, governance of our trust and as stewards of the areas where we operate. Attaining best practice in all aspects of our business is our constant aspiration. Our ESG practices are highlighted in our MD&A. What follows is a brief snapshot of those practices.

ENVIRONMENTAL COMMITMENT

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



- All properties have LED lights, with 80% of buildings using motion-sensing lights to save electricity when people are not present.
- All properties have active recycling programs. We are currently reviewing options to determine if these programs can be improved.
- We have monitored 12 office properties in Edmonton since 2012 with the assistance of third party specialists. Over this period, these buildings have achieved:
 - a 20% reduction in electricity consumption, or CO2 equivalent of 8,900 tonnes.
 - a 7% reduction in natural gas consumption, or CO2 equivalent of 370 tonnes.
 - a 45% decrease in emission intensity, or CO2 equivalent of 12,400 tonnes.

SOCIAL RESPONSIBILITY

The REIT's asset and property manager, Melcor Developments Ltd. is committed to creating and maintaining a diverse, inclusive, and safe work environment. Melcor places people at the heart of its strategy and one of three core values is to "empower and care for our exceptional team."



We value the different perspectives, experiences, and backgrounds that each employee brings to the table. We are dedicated to fostering an environment of innovation, collaboration, and decision making that incorporates these diverse perspectives.

Our goal is to create an environment where all employees feel respected, valued, and welcomed. Our commitment to workplace diversity and social responsibility is demonstrated through our recruitment and hiring practices, our training and development initiatives, and our internal policies and procedures.

- Of the Melcor management team that oversees, leases and manages the REIT's portfolio, 51% are female and 30% are visible minorities.
- Half of the REIT's executive team is female.
- We demonstrate social responsibility through our relationships with tenants and in the communities where we operate.
- Our focus on relationships extends to our service providers as well. The majority of our service providers are local and many are small businesses that support our local economies.



EFFECTIVE GOVERNANCE

We are committed to effective corporate governance practices as a core component of our operating philosophy. Strong governance practices form the foundation of a sustainable business and long-term value creation for unitholders. The REIT's board of trustees reviews our corporate governance practices annually to better align the REIT with industry best practices.



- The majority of our trustees (4 of 7) are independent, and 43% are female.
- Half of the REIT's executive team is female.
- We appoint an independent lead trustee.
- In 2023 we introduced a minimum unitholdings requirement for all trustees. Effective July 1, 2023, trustees are required to hold the dollar-value equivalent of two times the annual trustee retainer.
- In 2021 we added an Environmental, Social and Governance oversight to the Board's mandate to ensure that our corporate sustainability goals and practices are meaningfully aligned with our business.
- In 2021, we formally established an Independent Committee to examine the agreements between Melcor Developments Ltd. and the REIT and other matters as directed by the Board. The work of this Committee resulted in amendments to the Asset and Property Management agreements, approved by unitholders at our 2022 annual meeting.
- All arrangements with Melcor require approval by a majority of our independent trustees to represent the interests of minority unitholders.
- The audit and compensation and governance committees are both comprised of 100% independent trustees.



ANNUAL GENERAL MEETING

We are pleased to invite you to our 10th annual meeting of unitholders. You may attend the meeting in person or via webcast. Both the live and online audience will be able to ask questions following the meeting. We encourage you to vote in advance of the meeting as per the instructions received in your voting package.

Wednesday, April 26, 2023 | 9:30 am MT

Fairmont Hotel Macdonald

Empire Ballroom

10065 100 Street NW | Edmonton, AB

Online: <https://www.gowebcasting.com/12426>

PROXY DEADLINE:

April 24, 2023 | 9:30 am MT

AGM MATERIALS: melcorreit.ca/2023AGM

UPCOMING REPORTING DATES

Q1-2023 – May 2, 2023

Q2-2023 – August 1, 2023

Q3-2023 – November 2, 2023

FY/Q4-2023 – February 29, 2024

Dates are subject to change without notice. Visit MelcorREIT.ca for current information.



TENANT SERVICES

Scan the QR code to download our customer care app on the App Store or Google Play.



You may also submit service requests online at melcare.ca.

CORPORATE & UNITHOLDER INFORMATION

TSX LISTINGS

Units: **MR.UN**

5.10% Convertible Debenture: **MR.DB.B**

LEGAL COUNSEL

Bryan & Company LLP

AUDITORS

PricewaterhouseCoopers LLP

INVESTOR RELATIONS

P. 1.855.673.6937

E. IR@MelcorREIT.ca

2022 TAX INFORMATION (RETURN OF CAPITAL CLASSIFICATION)

Regular income - 70%

Return of capital - 30%

UNITHOLDER SERVICES

Odyssey Trust

Trader's Bank Building

702 67 Yonge Street

Toronto, ON M5E 1J8

1.888.290.1175

<https://odysseycontact.com>

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