

# Press Release

for immediate distribution

## Melcor REIT announces second quarter 2022 results

Edmonton, Alberta | July 26, 2022

Melcor REIT (TSX: MR.UN) today announced results for the second quarter ended June 30, 2022. Rental revenue was up 1% in the quarter at \$18.15 million and down 1% at \$37.12 million year-to-date. NOI was down 2% in the quarter at \$11.39 million and down 4% year-to-date at \$23.25 million. ACFO for the quarter was \$4.51 million or \$0.15 per unit, and \$9.57 million or \$0.33 per unit year-to-date. Occupancy held steady over the first quarter and year-end at 87% and we retained 86% of expiring leases year-to-date. We continue to actively pursue new tenant opportunities and have commenced 53,444 sf in new leases. Including new leasing, renewals and holdovers, we have signed 273,154 sf to date.

### Second Quarter Highlights:

- Revenue was up 1% at \$18.15 million compared to Q2-2021;
- Net operating income (NOI) was down 2% to \$11.39 million compared to Q2-2021;
- Funds from operations (FFO) was down 7% to \$6.11 million or \$0.21 per unit compared to Q2-2021;
- Adjusted cash flow from operations (ACFO) was down 9% at \$4.51 million or \$0.15 per unit compared to Q2-2021;
- Occupancy remained stable at 87%;
- Distributions of \$0.04 per unit were paid in Q2-2022 for a quarterly ACFO payout ratio of 77%.

### Year-to-Date Highlights:

#### Results:

- Revenue was down 1% at \$37.12 million.
- Net operating income (NOI) was down 4% to \$23.25 million.
- Funds from operation (FFO) was down 8% to \$12.64 million or \$0.43 per unit.
- Adjusted cash from operations (ACFO) was down 11% at \$9.57 million or \$0.33 per unit.
- Distributions of \$0.04 per unit were paid in January through June for a year-to-date ACFO payout ratio of 73%.

#### Results, excluding Early Termination event<sup>1</sup>:

- Revenue was up 2%.
- NOI was stable.
- FFO was stable.
- ACFO was down 1%.

*1. Early Termination event: In Q1-2021, we received \$1.00 million for the early lease termination of a fast food chain which was included in other revenue, and impacts the comparative results*

Andrew Melton, CEO of Melcor REIT commented: "The second quarter of 2022 presented similar results to what we saw in the first quarter. We are pleased with stability in a market that continues to see challenges. Our leasing team has worked diligently to renew expiring leases and source new tenants, resulting in a healthy retention rate of 86% and 273,154 sf of new and renewed leasing. Future leasing remains a priority and we have commitment on an additional 110,966 sf of future renewals and over 78,000 sf in new deals.

Rising interest rates and inflation place even more pressure on the market and we expect to further feel the effects of this as our mortgages come up for renewal. Our weighted average interest rate rose to 3.71% over year-end. (December 31, 2021 - 3.62%).

Our distributions remained stable over Q1-2022 at \$0.04 per unit, an increase of 14% over Q2-2021. Subsequent to quarter-end, the Board of Trustees declared distributions for July 2022, unchanged from previous months."

### HIGHLIGHTS:

Our portfolio performance remained stable in the second quarter and year-to-date. Year-to-date NOI and net rental income was down 4% due to \$1 million in early termination fees paid in Q1-2021. Excluding these payments, year-to-date NOI was stable and net rental income was up 1%. In the quarter, both NOI and net rental income were down 2% due to the timing of operating expenses.

We continue to proactively renew existing tenants which has resulted in a strong retention rate of 86% year-to-date. We are actively pursuing new tenant opportunities and have commenced 53,444 sf in new leases. Occupancy remained stable over the first quarter and year-end at 87% (Q1-2022 - 87%, Q4-2021 - 87%). On average, WABR has decreased slightly from year-end, down 1%, due to ongoing challenges within the office class. Following the lifting of work-from-home orders, demand for office space continues to fluctuate while supply increases. WABR on our retail properties increased 1% over Q1-2022.

The factors that contributed most significantly to results in 2022 compared to 2021 are as follows:

- **Early Termination event:** In Q1-2021, we received \$1.00 million for the early lease termination of a fast food chain which was included in other revenue, and impacts the comparative results.
- **Non-cash fair value adjustments:** Non-cash fair value adjustments on Class B LP Units and investment properties often cause dramatic swings in results. Class B Units are valued at market value, thus a change in unit price has a counter-intuitive impact on net income, as an increase in unit value decreases net income. These revaluations have had a material impact to net income in both the current and prior periods, making comparison less meaningful. Management considers FFO and ACFO better measures of our performance as these non-cash items are removed from those metrics.
- **Distribution Increase:** Our monthly distribution increased by 14% to \$0.04 per unit compared to Q2-2021.

### FINANCIAL HIGHLIGHTS

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

- Revenue was up 1% at \$18.15 million in Q2-2022 and down 1% at \$37.12 million year-to-date. Excluding the Early Termination event, year-to-date revenue was up 2%.
- NOI was down 2% at \$23.25 million in Q2-2022 due to the timing of operating expenses. NOI was down 4% year-to-date. Excluding the Early Termination event, year-to-date NOI was stable.
- FFO was down 7% to \$6.11 million or \$0.21 per unit in the quarter (Q2-2021: \$6.57 million or \$0.23 per unit). Year-to-date, FFO was down 8% to \$12.64 million or \$0.43 per unit (2021: \$13.67 million or \$0.47 per unit). Excluding the Early Termination event, year-to-date FFO was stable. Management believes FFO best reflects our true operating performance.
- ACFO was down 9% at \$4.51 million or \$0.15 per unit in Q2-2022 (Q2-2021: \$4.96 million or \$0.17 per unit). Year-to-date ACFO is down 11% at \$9.57 million (2021: \$10.71 million). Excluding the Early Termination event, year-to-date ACFO was down 1%. Management believes that ACFO best reflects our cash flow and therefore our ability to pay distributions. The second quarter payout ratio was 77% based on ACFO, and 73% year-to-date (Q2-2021 - 62% and year-to-date 2021 - 57%).
- Net income in the current and comparative period is significantly impacted by the non-cash fair value adjustments described above and thus not a meaningful metric to assess financial performance.
- Year-to-date we have completed financing renewals on 3 properties, for net proceeds of \$1.44 million.
- As at June 30, 2022 we had \$4.55 million in cash and \$32.00 million in undrawn liquidity under our revolving credit facility.

### DISTRIBUTIONS

Our monthly distributions remained stable over year-end at \$0.04 and increased 14% over Q2-2021. The quarterly payout ratio was 77% based on ACFO and 57% based on FFO (Q2-2021: distribution of \$0.035 per month; 62% ACFO and 47% FFO). Year-to-date the payout ratio was 73% based on ACFO and 55% based on FFO (2021: distributions of \$0.035 per month; 57% based on ACFO and 45% based on FFO)

### SUBSEQUENT EVENT

Subsequent to the quarter, we declared the following distribution:

Month	Record Date	Distribution Date	Distribution Amount
July 2022	July 29, 2022	August 15, 2022	\$0.04 per Unit

## FINANCIAL HIGHLIGHTS & KEY PERFORMANCE INDICATORS (KPI)

(\$000's)	Three months ended June 30			Six months ended June 30		
	2022	2021	△%	2022	2021	△%
<b>Non-standard KPIs</b>						
NOI <sup>1</sup>	<b>11,391</b>	11,582	(2)	<b>23,246</b>	24,209	(4)
Same-asset NOI <sup>1</sup>	<b>11,391</b>	11,582	(2)	<b>23,246</b>	24,209	(4)
FFO <sup>1</sup>	<b>6,108</b>	6,570	(7)	<b>12,638</b>	13,671	(8)
AFFO <sup>1</sup>	<b>4,352</b>	4,811	(10)	<b>9,263</b>	10,415	(11)
ACFO <sup>1</sup>	<b>4,506</b>	4,956	(9)	<b>9,571</b>	10,705	(11)
Rental revenue	<b>18,154</b>	17,977	1	<b>37,119</b>	37,463	(1)
Income before fair value adjustments <sup>1</sup>	<b>3,267</b>	3,941	(17)	<b>6,961</b>	8,434	(17)
Fair value adjustment on investment properties <sup>2</sup>	<b>(5,540)</b>	531	nm	<b>(9,202)</b>	130	nm
Cash flows from operations	<b>2,430</b>	1,999	22	<b>6,723</b>	7,792	(14)
Distributions to unitholders	<b>1,556</b>	1,362	14	<b>3,112</b>	2,731	14
Distributions <sup>3</sup>	<b>\$0.12</b>	\$0.11	9	<b>\$0.24</b>	\$0.21	14

1. Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.
2. The abbreviation nm is shorthand for not meaningful and is used through this MD&A where appropriate.
3. Distributions have been paid out at \$0.04 per unit per month from January to June 2022. Distributions in the comparative period were paid out at \$0.035 per unit per month from January to June 2021.

	Three months ended June 30			Six months ended June 30		
	2022	2021	△%	2022	2021	△%
<b>Per Unit Metrics</b>						
Net income (loss)						
Basic	<b>\$1.39</b>	(\$0.36)		<b>\$0.89</b>	(\$2.23)	
Diluted	<b>\$0.11</b>	(\$0.36)		<b>\$0.20</b>	(\$2.23)	
Weighted average number of units for net income (loss) (000s): <sup>1</sup>						
Basic	<b>12,963</b>	12,975	—	<b>12,964</b>	13,010	—
Diluted	<b>29,088</b>	12,975	124	<b>29,089</b>	13,010	124
FFO						
Basic <sup>2</sup>	<b>\$0.21</b>	\$0.23		<b>\$0.43</b>	\$0.47	
Diluted <sup>2</sup>	<b>\$0.20</b>	\$0.21		<b>\$0.42</b>	\$0.44	
Payout ratio <sup>2</sup>	<b>57 %</b>	47 %		<b>55%</b>	45%	
AFFO						
Basic <sup>2</sup>	<b>\$0.15</b>	\$0.17		<b>\$0.32</b>	\$0.36	
Payout ratio <sup>2</sup>	<b>80 %</b>	64 %		<b>75%</b>	59%	
ACFO						
Basic <sup>2</sup>	<b>\$0.15</b>	\$0.17		<b>\$0.33</b>	\$0.37	
Payout ratio <sup>2</sup>	<b>77 %</b>	62 %		<b>73%</b>	57%	
Weighted average number of units for FFO, AFFO and ACFO (000s): <sup>3</sup>						
Basic	<b>29,088</b>	29,100	—	<b>29,089</b>	29,135	—
Diluted	<b>36,255</b>	36,268	—	<b>36,255</b>	36,304	—

1. 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.
2. Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.
3. 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.

	June 30, 2022	December 31, 2021	△%
Total assets (\$000s)	730,290	735,668	(1)
Equity at historical cost (\$000s) <sup>1</sup>	288,196	288,234	–
Indebtedness (\$000s) <sup>2</sup>	441,396	446,769	(1)
Weighted average interest rate on debt	3.71 %	3.62 %	2
Debt to GBV, excluding convertible debentures (maximum threshold - 60%) <sup>3</sup>	49 %	49 %	–
Debt to GBV (maximum threshold - 65%) <sup>3</sup>	58 %	58 %	–
Finance costs coverage ratio <sup>4</sup>	2.38	2.45	(3)
Debt service coverage ratio <sup>5</sup>	1.68	2.06	(18)

1. Calculated as the sum of trust units and Class B LP Units at their historical cost value. In accordance with IFRS the Class B LP Units are presented as a financial liability in the consolidated financial statements. Please refer to page 11 for calculation of Equity at historical cost.
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. Please refer to page 11 for calculation of Indebtedness.
3. Debt to GBV is a Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.
4. Non-GAAP financial ratio. 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 metric is not calculated for purposes of covenant compliance on any of our debt facilities. Please refer to Non-GAAP and Non-Standard Measures section for further information.
5. Non-GAAP financial ratio. 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 metric is not calculated for purposes of covenant compliance on any of our debt facilities. Please refer to Non-GAAP and Non-Standard Measures section for further information.

Operational Highlights	June 30, 2022	December 31, 2021	△%
Number of properties	39	39	–
GLA (sf)	3,216,141	3,216,175	–
Occupancy (weighted by GLA)	86.6 %	87.1 %	(1)
Retention (weighted by GLA)	85.5 %	81.7 %	5
Weighted average remaining lease term (years)	3.81	3.86	(1)
Weighted average base rent (per sf)	\$16.58	\$16.73	(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 Q2-2022 quarterly report to unitholders. The REIT's consolidated financial statements and management's discussion and analysis for the three-months ended June 30, 2022 can be found on the REIT's website at [www.MelcorREIT.ca](http://www.MelcorREIT.ca) or on SEDAR ([www.sedar.com](http://www.sedar.com)).

### Conference Call & Webcast

Unitholders and interested parties are invited to join management on a conference call to be held July 27, 2022 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/11855>. 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](http://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, 2022, which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

**Finance costs coverage ratio:** Finance costs coverage ratio is a non-GAAP ratio and 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:** Debt service coverage ratio is a non-GAAP ratio and 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:** Debt to GBV is a non-GAAP ratio and is calculated as the sum of total amount drawn on revolving credit facility, mortgages payable, Class C LP Units, excluding unamortized fair value adjustment on Class C LP Units, liability held for sale (as applicable) and

convertible debenture, excluding unamortized discount and transaction costs divided by GBV. GBV is calculated as the total assets acquired in the Initial Properties, subsequent asset purchases and development costs less dispositions.

**Income before fair value adjustment and taxes:** Income before fair value adjustment and income taxes is a non-GAAP financial measure and is calculated as net income excluding fair value adjustments for Class B LP Units, investment properties and derivative instruments.

(\$000s)	Three months ended June 30			Six months ended June 30		
	2022	2021	△%	2022	2021	△%
Net income (loss) for the period	18,059	(4,619)		11,521	(29,058)	
Fair value adjustment on Class B LP Units	(16,770)	6,612		(9,675)	33,380	
Fair value adjustment on investment properties	5,540	(531)		9,202	(130)	
Fair value adjustment on derivative instruments	(3,562)	2,479		(4,087)	4,242	
<b>Income before fair value adjustment and taxes</b>	<b>3,267</b>	<b>3,941</b>	<b>(17)</b>	<b>6,961</b>	<b>8,434</b>	<b>(17)</b>

**Fair value of investment properties:** Fair value of investment properties in the Property Profile and Regional Analysis sections of the MD&A is a supplementary financial measure and is calculated as the sum of the balance sheet balances for investment properties and other assets (TIs and SLR).

NOI Reconciliation (\$000s)	Three months ended June 30			Six months ended June 30		
	2022	2021	△%	2022	2021	△%
Net income (loss) for the period	18,059	(4,619)		11,521	(29,058)	
Net finance costs	2,985	8,631		8,934	16,690	
Fair value adjustment on Class B LP Units	(16,770)	6,612		(9,675)	33,380	
Fair value adjustment on investment properties	5,540	(531)		9,202	(130)	
General and administrative expenses	810	695		1,598	1,498	
Amortization of operating lease incentives	906	936		1,807	1,851	
Straight-line rent adjustment	(139)	(142)		(141)	(22)	
<b>NOI</b>	<b>11,391</b>	<b>11,582</b>	<b>(2)</b>	<b>23,246</b>	<b>24,209</b>	<b>(4)</b>

1. Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.

Same-asset Reconciliation (\$000s)	Three months ended June 30			Six months ended June 30		
	2022	2021	△%	2022	2021	△%
Same-asset NOI <sup>1</sup>	11,391	11,582	(2)	23,246	24,209	(4)
NOI <sup>1</sup>	11,391	11,582	(2)	23,246	24,209	(4)
Amortization of tenant incentives	(906)	(936)		(1,807)	(1,851)	
SLR adjustment	139	142		141	22	
<b>Net rental income</b>	<b>10,624</b>	<b>10,788</b>	<b>(2)</b>	<b>21,580</b>	<b>22,380</b>	<b>(4)</b>

1. Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.

FFO & AFFO Reconciliation (\$000s, except per unit amounts)	Three months ended June 30			Six months ended June 30		
	2022	2021	△%	2022	2021	△%
Net income (loss) for the period	18,059	(4,619)		11,521	(29,058)	
Add / (deduct)						
Fair value adjustment on investment properties	5,540	(531)		9,202	(130)	
Fair value adjustment on Class B LP Units	(16,770)	6,612		(9,675)	33,380	
Amortization of tenant incentives	906	936		1,807	1,851	
Distributions on Class B LP Units	1,935	1,693		3,870	3,386	
Fair value adjustment on derivative instruments	(3,562)	2,479		(4,087)	4,242	
<b>FFO<sup>1</sup></b>	<b>6,108</b>	<b>6,570</b>	<b>(7)</b>	<b>12,638</b>	<b>13,671</b>	<b>(8)</b>
Deduct						
Straight-line rent adjustments	(139)	(142)		(141)	(22)	
Normalized capital expenditures	(588)	(587)		(1,176)	(1,174)	
Normalized tenant incentives and leasing commissions	(1,029)	(1,030)		(2,058)	(2,060)	
<b>AFFO<sup>1</sup></b>	<b>4,352</b>	<b>4,811</b>	<b>(10)</b>	<b>9,263</b>	<b>10,415</b>	<b>(11)</b>
<b>FFO/Unit<sup>2</sup></b>	<b>\$0.21</b>	<b>\$0.23</b>		<b>\$0.43</b>	<b>\$0.47</b>	
<b>AFFO/Unit<sup>2</sup></b>	<b>\$0.15</b>	<b>\$0.17</b>		<b>\$0.32</b>	<b>\$0.36</b>	
Weighted average number of units (000s): <sup>3</sup>	<b>29,088</b>	<b>29,100</b>	<b>–</b>	<b>29,089</b>	<b>29,135</b>	<b>–</b>

1. Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.
2. Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.
3. 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.

ACFO Reconciliation (\$000s)	Three months ended June 30			Six months ended June 30		
	2022	2021	△%	2022	2021	△%
Cash flows from operations	2,430	1,999	22	6,723	7,792	(14)
Distributions on Class B LP Units	1,935	1,693		3,870	3,386	
Actual payment of tenant incentives and direct leasing costs	2,188	1,646		3,921	3,392	
Changes in operating assets and liabilities	(139)	1,529		(1,067)	(24)	
Amortization of deferred financing fees	(291)	(294)		(642)	(607)	
Normalized capital expenditures	(588)	(587)		(1,176)	(1,174)	
Normalized tenant incentives and leasing commissions	(1,029)	(1,030)		(2,058)	(2,060)	
<b>ACFO<sup>1</sup></b>	<b>4,506</b>	<b>4,956</b>	<b>(9)</b>	<b>9,571</b>	<b>10,705</b>	<b>(11)</b>
<b>ACFO/Unit<sup>2</sup></b>	<b>\$ 0.15</b>	<b>\$ 0.17</b>		<b>\$0.33</b>	<b>\$0.37</b>	
Weighted average number of units (000s) <sup>3</sup>	<b>29,088</b>	<b>29,100</b>	<b>–</b>	<b>29,089</b>	<b>29,135</b>	<b>–</b>

1. Non-GAAP financial measure. Refer to the Non-GAAP and Non-Standard Measures section for further information.
2. Non-GAAP ratio. Refer to the Non-GAAP and Non-Standard Measures section for further information.
3. The diluted weighted average number of units includes Trust Units, Class B LP Units and convertible debentures.

### 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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