

Press Release

for immediate distribution

Melcor REIT announces first quarter 2018 results

Edmonton, Alberta | May 3, 2018

Highlights

- Completed the vend-in of 172,629 square feet of newly built retail and industrial assets
- Rental Revenue grew 6% to \$18.02 million over Q1-2017
- Net operating income grew 3% to 11.08 million over Q1-2017
- Adjusted funds from operations (AFFO) declined 7% to \$4.89 million or \$0.18 per unit
- Debt to Gross Book Value (GBV) ratio of 56%, well below our maximum threshold of 65%
- Distributions of \$0.05625 per trust unit were paid in January, February and March for a payout ratio of 96%

Melcor REIT (TSX: MR.UN) today announced results for the first quarter ended March 31, 2018. Rental revenue grew 6% over the prior year as a result of portfolio growth over the same period. Net operating income also grew by 3% to \$11.08 million. AFFO was down 7% due to the timing and non-cash costs related to the Melcor Acquisition.

Andrew Melton, President & CEO of Melcor REIT commented: "It is my pleasure to report on the first quarter of 2018 as we celebrate our fifth anniversary. With our fourth vend-in from the Melcor Developments pipeline completed early in the quarter, we both grew and strengthened our portfolio, contributing to steady occupancy and growth in average rents in spite of continued challenges in some of our markets. We also continue to find creative ways to overcome challenging markets by adjusting for and capitalizing on market trends across all asset classes.

With a solid financial position, we remain well-positioned to continue to achieve steady results and to capitalize on growth opportunities."

Q1-2018 Highlights:

Our portfolio grew 6% in the first quarter through the closing of the Melcor Acquisition, the fourth acquisition under our right of first offer with Melcor. The Melcor Acquisition was comprised of 172,629 sf (owned GLA) of recently constructed, high-quality retail and industrial properties which improved both the mix and overall quality of our assets. Growth across key indicators was tempered by a decline in same-asset performance in the first quarter; particularly in our Edmonton office assets where market fundamentals remain challenging. Our proactive engagement on renewing existing tenants and pursuing new tenants resulted in a healthy retention rate of 67.1% at quarter end and overall occupancy of 90.5%. The stability and diversity of our portfolio with respect to both tenant profile and asset class enable the REIT to continue navigating through economic cycles. We are focused on the real estate fundamentals of asset enhancement and property management while conservatively managing our debt.

Highlights of our performance in the first quarter include:

- Revenue growth of 6% and NOI growth of 3% over Q1-2017 as a result of the Melcor Acquisition completed on January 12, 2018, which added 172,629 sf to our owned portfolio.
- We secured key renewals on leases with three top revenue generating tenants (including one subsequent to the quarter) representing approximately 100,000 sf of GLA in the Edmonton area.
- We continued to execute on our proactive leasing strategy to both retain existing and attract new tenants. We completed new and renewed leasing representing 133,663 sf (including holdovers) for a retention rate of 67.1% at March 31, 2018.
- Same-asset NOI was down 5% over Q1-2017 and 2% from Q4-2017, trending with a decline in same-asset occupancy and weighted average base rents. The decline in our Northern Alberta office assets was partially offset by same-asset income and occupancy growth in retail and office assets in Southern Alberta, British Columbia and Regina.
- Net income (loss) in the current and comparative periods is significantly impacted by non-cash fair value losses on investment properties due to changes in capitalization rates/NOI and Class B LP Units due to changes in the REIT's unit price. Management believes adjusted funds from operations (AFFO) is a better reflection of our true operating performance.

- AFFO was \$4.89 million or \$0.18 per share, down 7% from Q1-2017 and stable over Q4-2017. The timing of the Melcor Acquisition resulted in a slight drag on AFFO in the first quarter.
- We sold two Edmonton area retail properties (including one subsequent to the quarter) for gross proceeds of \$20.65 million as part of our capital recycling strategy.
- We issued 2,035,500 trust units to complete the Melcor Acquisition, increasing our public float by 18%.
- We paid distributions of \$0.05625 per trust unit in January, February and March for a quarterly payout ratio of 96%.
- As at March 31, 2018 we have \$1.26 million in cash and additional capacity under our revolving credit facility. We conservatively manage our debt, with a debt to GBV on the low end of our target range.

Financial Highlights

(\$000s)	Three months ended March 31		
	2018	2017	△%
Non-Standard KPIs			
Net operating income (NOI)	11,075	10,737	3 %
Funds from operations (FFO)	6,702	6,815	(2)%
Adjusted funds from operations (AFFO) ⁽⁵⁾	4,893	5,250	(7)%
Adjusted Cash Flow from Operations (ACFO)	4,837	5,193	(7)%
Rental revenue	18,017	17,000	6 %
Income before fair value adjustments	3,420	3,580	(4)%
Fair value adjustment on investment properties ⁽⁶⁾	(1)	(16,459)	nm
Distributions to unitholders	2,225	1,882	18 %
Cash flows from operations	3,697	2,827	31 %
Same-asset NOI	9,766	10,333	(5)%
Per unit metrics			
Income (loss) - diluted	\$0.21	(\$1.21)	
FFO	\$0.24	\$0.26	
AFFO ⁽⁵⁾	\$0.18	\$0.20	
Distributions	\$0.17	\$0.17	
Payout ratio	96%	83%	
	31-Mar-18	31-Dec-17	△%
Total assets (\$000s)	723,854	676,237	7 %
Equity (\$000s) ⁽¹⁾	280,314	260,600	8 %
Debt (\$000s) ⁽²⁾	396,680	353,340	12 %
Weighted average interest rate on debt	3.69%	3.75%	(2)%
Debt to GBV, excluding convertible debentures (maximum threshold - 60%)	48%	47%	2%
Finance costs coverage ratio ⁽³⁾	2.66	2.93	(9)%
Debt service coverage ratio ⁽⁴⁾	2.38	2.60	(8)%

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 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.
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.
5. We adopted REALpac's new guidance on AFFO in Q2-2017 retroactively. See Adjusted Funds From Operations in the MD&A for details.
6. The abbreviation nm is shorthand for not meaningful and is used through this MD&A where appropriate.

Operational Highlights

	31-Mar-18	31-Dec-17	△%
Number of properties	37	37	— %
Gross leasable area (GLA) (sf)	2,861,546	2,710,862	6 %
Occupancy (weighted by GLA)	90.5%	91.8%	(1%)
Retention (weighted by GLA)	67.1%	80.6%	(17%)
Weighted average remaining lease term (years)	5.06	4.66	9 %
Weighted average base rent (per sf)	\$16.78	\$15.88	6 %

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 Q1-2018 quarterly report to unitholders. The REIT's consolidated financial statements and management's discussion and analysis for the three-months ended March 31, 2018 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 Friday, May 4, 2018 at 11:00 AM ET (9:00 AM MT). Call 416-340-8527 in the Toronto area; 1-800-355-4959 toll free.

The call will also be webcast (listen only) at <http://www.gowebcasting.com/9243>. A replay of the call will be available at the same URL shortly after the call is concluded.

Annual General Meeting & Webcast

Unitholders and interested parties are invited to join us at our Annual General Meeting on Thursday, May 10, 2018 at 10:00 AM MT. The AGM will also be webcast (listen only) at <http://www.gowebcasting.com/9248>.

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 36 properties representing approximately 2.83 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 March 31, 2018, 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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