

Press Release

for immediate distribution

Melcor REIT announces third quarter 2016 results

Edmonton, Alberta | November 4, 2016

Highlights

- Portfolio performance remained steady in Q3-2016
- Rental Revenue grew 3% to \$16.44 million
- Adjusted funds from operations (AFFO) grew 4% to \$5.76 million or \$0.22 per unit
- Debt to Gross Book Value (GBV) ratio was 56%, below our maximum threshold of 65%
- Distributions of \$0.05625 per trust unit were paid in July, August and September for a payout ratio of 77%

Melcor REIT (TSX: MR.UN) today announced results for the third quarter ended September 30, 2016. Rental revenue grew 3% to \$16.44 million compared to \$15.94 million in Q3-2015. Adjusted funds from operations (AFFO) grew 4% to \$16.99 million (\$0.66 per unit) year-to-date.

Darin Rayburn, CEO of Melcor REIT commented: "Steady results in Q3, including our conservative payout ratio, demonstrate the sustainability of our model and the strength of our portfolio. We continue to see leasing activity and we maintain our focus on providing exceptional customer care to retain tenants. We believe our focus on the fundamentals of operating efficiency, asset enhancement and tenant retention will deliver maximum return to unitholders over time. We do know that the future will have its challenges, but we are continuing to move forward and make adjustments as needed to respond to market conditions."

Q3-2016 Highlights:

Our portfolio performance remained steady throughout Q3-2016. The stability and diversity of our portfolio with respect to both tenant profile and asset class position the REIT well for managing through economic cycles. We are focused on the real estate fundamentals of asset enhancement and property management while conservatively managing our debt. At 77%, our payout ratio is a strong indicator of our overall health and our ability to sustain distributions at current rates.

Highlights of our performance in the third quarter include:

- Property acquisitions completed via the Melcor proprietary pipeline over the past 12 months coupled with densification activity on two existing properties led to revenue growth of 3% and AFFO growth of 4% over Q3-2015.
- Leasing activity remains stable, with 123,164 sf in new and renewed leases completed during the quarter. Occupancy remains steady at 92.4%.
- We achieved an on-time response rate in our signature care program of 99% in Q3-2016. In September, we completed a tenant survey at select Edmonton area office buildings where 94% of respondents rated our property management and building operations teams as good, very good or excellent. We view these metrics as an important indication of our commitment to ongoing client care, which contributes to tenant satisfaction and ultimately retention.
- We renewed and re-financed \$17.03 million in mortgage and Class C LP debt at an average interest rate of 2.88%. Recent renewals and re-financings have resulted in a downward trend in our weighted average interest rate, which declined 17 basis points over December 31, 2015. Reductions to our average borrowing costs translated into improvement in both our finance costs coverage ratio and debt service coverage ratio, which indicate our ability to satisfy ongoing debt servicing requirements.
- We paid distributions of \$0.05625 per trust unit in July, August and September for a quarterly payout ratio of 77% (Q3-2015 - 80%).
- Our working capital position remains healthy and we continue to collect receivables in a timely manner to ensure near term liquidity. Funds available under our revolving credit facility at September 30, 2016 provide the REIT with near term capacity to capitalize on acquisition opportunities.

Selected Highlights

<i>Financial Highlights</i>						
	Three months ended Sept 30			Nine months ended Sept 30		
(\$000s)	2016	2015	△%	2016	2015	△%
Non-Standard KPIs						
Net operating income (NOI)	10,692	10,325	4 %	32,078	30,912	4 %
Funds from Operations (FFO)	6,843	6,724	2 %	20,362	19,716	3 %
Adjusted Funds from Operations (AFFO)	5,764	5,560	4 %	16,987	16,294	4 %
Rental revenue	16,439	15,938	3 %	49,872	48,519	3 %
Income before fair value adjustments	3,585	3,500	2 %	10,320	9,941	4 %
Fair value adjustment on investment properties	(947)	(3,614)	(74)%	(2,946)	(7,322)	(60)%
Distributions to unitholders	1,882	1,895	(1)%	5,646	5,700	(1)%
Cash flows from operations	3,688	3,802	(3)%	9,234	6,721	37 %
Same-asset NOI	9,796	9,953	(2)%	29,642	29,705	— %
Per unit metrics						
Income (loss) - diluted	\$0.01	\$0.10	(90)%	(\$1.25)	\$0.41	(405)%
FFO	\$0.27	\$0.26	2 %	\$0.79	\$0.76	4 %
AFFO	\$0.22	\$0.21	4 %	\$0.66	\$0.63	5 %
Distributions	\$0.17	\$0.17	— %	\$0.51	\$0.51	— %
Payout	77%	80%	(4)%	77%	80%	(4)%

	30-Sept-16	31-Dec-15	△%
Total assets (\$000s)	668,197	666,458	— %
Equity (\$000s) ⁽¹⁾	260,600	260,600	— %
Debt (\$000s) ⁽²⁾	353,490	353,521	— %
Weighted average interest rate on debt	3.63%	3.80%	(4)%
Debt to GBV ratio	56%	56%	— %
Finance costs coverage ratio ⁽³⁾	2.91	2.87	1 %
Debt service coverage ratio ⁽⁴⁾	2.78	2.76	1 %

<i>Operational Highlights</i>			
	30-Sept-16	31-Dec-15	△%
Number of properties	38	38	— %
Gross Leasable Area (GLA) (sf)	2,775,832	2,768,750	— %
Occupancy % (weighted by GLA)	92.4%	93.6%	(1)%
Retention % (weighted by GLA)	52.6%	73.0%	(28)%
Weighted average remaining lease term (years)	4.91	5.27	(7)%
Weighted average base rent (per sf)	\$ 15.59	\$ 15.49	1 %

(1) Calculated as the sum of trust units and Class B LP Units at their book value. Class B LP Units are presented as a financial liability in the condensed interim 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 and convertible debenture, excluding unamortized discount and transaction costs.

(3) Excluding convertible debentures, Debt to GBV ratio is 50% (December 31, 2015 - 50%).

(4) 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 financial liability.

(5) 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.

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 Q3-2016 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, 2016 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 CEO Darin Rayburn and CFO Naomi Stefura on a conference call to be held Friday, November 4, 2016 at 11:30 AM ET (9:30 AM MT). Call 416-340-8527 in the Toronto area; 877-640-8037 toll free.

The call will also be webcast (listen only) at <http://www.gowebcasting.com/8128>. 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 with exposure to high growth western Canadian markets. Its portfolio is currently made up of interests in 38 properties representing approximately 2.78 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 and AFFO 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, 2016, 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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