

Press Release

for immediate distribution

Melcor REIT announces third quarter 2017 results

Edmonton, Alberta | November 1, 2017

Highlights

- Overall portfolio performance remained steady in Q3-2017 and year to date
- Rental Revenue of \$16.79 million in Q3-2017; \$50.35 million year to date
- Net operating income of \$10.56 million in Q3-2017; \$31.86 million year to date
- Adjusted funds from operations (AFFO) of \$5.16 million or \$0.20 per unit in Q3-2017; \$15.63 million or \$0.61 per unit year to date
- Debt to Gross Book Value (GBV) ratio of 54%, well 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 84%

Melcor REIT (TSX: MR.UN) today announced results for the third quarter ended September 30, 2017. Rental revenue in the quarter and year to date periods remained steady over the prior year at \$16.79 million and \$50.35 million respectively. Net operating income also remained consistent at \$10.56 million and \$31.86 million respectively.

Andrew Melton, President & CEO of Melcor REIT commented: "It is my pleasure to report on another successful quarter for the REIT. Our portfolio performance remains on track as we continue to execute on our business strategy of taking care of our tenants and buildings.

We have a strong foundation for future growth through our development pipeline. As Melcor Development continues its development program with properties nearing completion we continue to seek out and pursue 3rd party opportunities to add to our portfolio."

Q3-2017 Activity:

Our portfolio performance remained steady through the third quarter and year to date. 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 84%, our payout ratio is a strong indicator of our overall health and our ability to sustain distributions at current rates. In Q2-2017, we adopted REALpac's new guidance on AFFO retroactive to January 1, 2017 and for the comparative period, which resulted in a change from our previously reported payout ratios. We believe this is an improved disclosure and does not represent a fundamental change in our underlying results or strategy.

Highlights of our performance in the third quarter include:

- Same-asset net rental income, excluding the impact of non-cash items, was steady in the quarter, with 92.5% occupancy at September 30, 2017. Our retail and office assets within our Southern Alberta, British Columbia and Regina portfolios generated same-asset income and occupancy growth over 2016; offsetting downward trends within our Northern Alberta assets.
- The net loss of \$10.99 million year to date is a result of the non-cash fair value losses on investment properties recorded in the period due to an increase in capitalization rates. Management believes adjusted funds from operations (AFFO) is a better reflection of our true operating performance.
- AFFO was relatively stable at \$5.16 million in Q3-2017 and \$15.63 million year to date.

- We continued to execute on our proactive leasing strategy to both retain existing and attract new tenants. Through the first nine months of 2017 we completed 294,628 sf in new and renewed leasing (including holdovers) with a retention rate of 84.1% year to date.
- We responded to 99% of services requests within 30 minutes via our signature care program in Q3-2017. We view this metric as an important indication of our commitment to ongoing client care, which contributes to tenant satisfaction and ultimately retention.
- We took advantage of favourable lending conditions and early re-financed \$19.77 million in mortgages at an average interest rate of 3.31% in the quarter. Early re-financing was a strategy employed to mitigate and re-balance our risk in 2018, reducing our percentage of mortgage maturing from 21% to 10%.
- We continue to experience negative market pressure on Edmonton downtown office space as approximately 1.8 million sf in new inventory comes online. Edmonton downtown office spaces makes up 12% of the REIT's GLA.
- We paid distributions of \$0.05625 per trust unit in July, August and September for a quarterly payout ratio of 84%.
- As at September 30, 2017 we have \$1.87 million in cash. The REIT also has additional capacity under our revolving credit facility. Our working capital position remains healthy and we continue to collect receivables in a timely manner to ensure near-term liquidity.

Selected Highlights

Financial Highlights						
	Three months ended September 30			Nine months ended September 30		
(\$000s)	2017	2016	△%	2017	2016	△%
Non-Standard KPIs						
Net operating income (NOI)	10,557	10,692	(1)%	31,864	32,078	(1)%
Funds from operations (FFO)	7,029	6,843	3 %	20,679	20,362	2 %
Adjusted funds from operations (AFFO) ⁽⁶⁾	5,158	5,174	— %	15,627	15,316	2 %
Adjusted Cash Flow from Operations (ACFO)	5,102	5,117	— %	15,458	15,145	2 %
Rental revenue	16,791	16,439	2 %	50,350	49,872	1 %
Income before fair value adjustments	3,853	3,558	8 %	10,999	10,534	4 %
Fair value adjustment on investment properties ⁽⁷⁾	79	(947)	nm	(16,629)	(2,946)	nm
Distributions to unitholders	1,881	1,882	— %	5,645	5,646	— %
Cash flows from operations	4,751	3,688	29 %	10,279	9,234	11 %
Same-asset net rental income	10,353	9,933	4 %	30,324	30,038	1 %
Per unit metrics						
Income (loss) - diluted	\$0.25	\$0.01		(\$0.99)	(\$1.25)	
FFO	\$0.27	\$0.27		\$0.80	\$0.79	
AFFO ⁽⁶⁾	\$0.20	\$0.20		\$0.61	\$0.59	
Distributions	\$0.17	\$0.17		\$0.51	\$0.51	
Payout ratio ⁽⁶⁾	84%	84%		83%	85%	

	30-Sept-17	31-Dec-16	△%
Total assets (\$000s)	644,090	663,724	(3)%
Equity (\$000s) ⁽¹⁾	260,600	260,600	— %
Debt (\$000s) ⁽²⁾	342,349	351,947	(3)%
Weighted average interest rate on debt	3.58%	3.63%	(1)%
Debt to GBV ratio ⁽³⁾	54%	55%	(1)%
Finance costs coverage ratio ⁽⁴⁾	3.01	2.88	5 %
Debt service coverage ratio ⁽⁵⁾	2.70	2.65	2 %

(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 49% (December 31, 2016 - 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 adjustments on derivative financial instruments.

(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.

(6) We adopted REALpac's new guidance on AFFO in Q2-2017 retroactive to January 1, 2017 and for the comparative periods. See Adjusted Funds from Operations on page 10 for detail.

(7) The abbreviation nm is shorthand for not meaningful and is used through this MD&A where appropriate.

Operational Highlights

	30-Sept-17	31-Dec-16	△%
Number of properties	37	38	(3)%
Gross leasable area (GLA) (sf)	2,711,521	2,775,782	(2)%
Occupancy (weighted by GLA)	92.5%	92.4%	—%
Retention (weighted by GLA)	84.1%	71.0%	18%
Weighted average remaining lease term (years)	4.60	4.85	(5)%
Weighted average base rent (per sf)	\$15.72	\$15.73	— %

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 Q3-2017 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, 2017 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 Thursday, November 2, 2017 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/8984>. 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 37 properties representing approximately 2.71 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, 2017, 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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