

Press Release

for immediate distribution

Melcor REIT announces second quarter results

Edmonton, Alberta | August 6, 2014

<i>Quarter Highlights</i>	<i>Year-to-date Highlights</i>
<ul style="list-style-type: none"> Rental revenue of \$11.12 million for growth of 14% over Q2-2013 Net operating income of \$7.20 million for growth of 13% over Q2-2013 Adjusted funds from operations (AFFO) of \$3.90 million or \$0.19 per unit compared to \$0.19 per unit in Q2-2013 Debt to Gross Book Value (GBV) ratio of 46%, below our target range of 50-55% Gross leasable area increased by 4% through 3 property acquisitions 	<ul style="list-style-type: none"> Rental revenue of \$21.77 million, exceeding YTD-2013 by 12% Net operating income of \$13.93 million for growth of 10% over YTD-2013 Adjusted funds from operations (AFFO) grew 10% to \$7.68 million or \$0.39 per unit compared to \$0.37 per unit YTD-2013 Occupancy at 92.0% compared to 90.6% at the end of 2013 Distributions of \$0.05625 per unit per month paid YTD

Melcor REIT (MR.UN) announced results for the second quarter and first half of 2014, which ended June 30, 2014. Year-to-date rental revenue increased 12% to \$21.77 million compared to \$19.46 million in the first half of 2013. Adjusted funds from operations (AFFO) grew 10% to \$7.68 million or \$0.39 per unit for the first half of 2014.

Darin Rayburn, CEO of Melcor REIT commented: “We continue to execute our strategy and deliver as promised. Throughout the first half of 2014, we’ve increased our portfolio GLA by 9% through a number of external acquisitions as well as our first acquisition via the Melcor pipeline, which is unique to Melcor REIT. Our focus on leasing activity has been successful as well, with 77% of our expiring GLA renewed by the end of June. This contributed to an increase in occupancy and strong results overall.

We are pleased with our performance to date and will continue to take a disciplined and focused approach to achieving our objectives.”

Financial Highlights for the quarter include:

- On May 7, 2014 we successfully completed a bought deal issuance of 1,900,000 trust units at \$10.65 for gross proceeds of \$20.24 million. The underwriters subsequently exercised their over allotment option for an additional 245,000 trust units at \$10.65 for gross proceeds of \$2.61 million. The proceeds were used in part to fund two property acquisitions from Melcor, with the remainder used to pay down our revolving credit facility to support future acquisitions and for general trust purposes.
- We continued to execute on our growth strategy and increased gross leasable area (GLA) by 4% to 1,837,439 sq. ft.
 - We made our first acquisition via our proprietary Melcor pipeline, purchasing two multi-tenant retail properties for a purchase price of approximately \$13.50 million (excluding transaction costs). The properties include Market Mall, a 42,586 sq. ft. retail community strip centre in

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Regina, Saskatchewan and phase three of Kingsview Market, a 11,555 sq. ft. retail complex in Airdrie.

- We acquired 107 Avenue Building, a 23,432 sq. ft. office building in Edmonton, Alberta for a purchase price of \$5.55 million (excluding transaction costs).
- We continue to focus on property management and asset enhancement initiatives in order to maintain and improve our assets. These initiatives led to improved occupancy and retention rates during the second quarter, with period end rates of 92.0% and 78.3% respectively.
- We have achieved strong leasing activity year-to-date, with 71,754 sq. ft. in new leasing. 76.8% of the GLA expiring in 2014 was renewed at June 30, 2014.

The successful execution of these strategies contributed to:

- Revenue growth of 14% over Q2-2013 as a result of our expanded portfolio. Weighted average base rent (per sq. ft.) and occupancy remained steady during the period. Higher revenue translated into increased NOI, which grew by 13% over Q2-2013. Direct operating expenses increased by 15%, primarily as a result of the new property additions in conjunction with timing and allocation differences in the comparative period.
- FFO and AFFO of \$4.43 million and \$3.90 million, an 8% increase over Q2-2013. FFO and AFFO per unit were \$0.22 and \$0.19 respectively, and consistent over Q2-2013. Growth in FFO and AFFO was offset by the dilutive impact of the trust unit issuance during the period. We continue to pursue third party acquisition opportunities and monitor properties in the Melcor development pipeline to support future growth.
- Distributions of \$0.05625 per trust unit were paid in April, May and June. Distributions made during Q2-2014 represent a payout ratio of 89%.
- As at June 30, 2014 we have funds available under our revolving credit facility, providing the REIT with the near term capacity to capitalize on future acquisition opportunities.

Selected Quarter Highlights

Financial Highlights

(\$000s)	Three months ended June 30			Six months ended June 30		
	2014	2013	Δ %	2014	2013	Δ %
Non-standard KPIs						
Net operating income (NOI)	7,203	6,379	13%	13,937	12,721	10%
Funds from operations (FFO)	4,431	4,109	8%	8,719	8,104	8%
Adjusted funds from operations (AFFO)	3,902	3,604	8%	7,679	6,991	10%
Rental revenue	11,119	9,773	14%	21,766	19,461	12%
Income before fair value adjustments and taxes	2,125	2,488	(15)%	4,264	5,905	(28)%
Fair value adjustment on investment properties	568	1,792	(68)%	737	4,386	(83)%
Distributions to unitholders	1,782	1,027	74%	3,323	1,027	224%
Cash flows from operations	1,806	2,105	(14)%	4,102	9,141	(55)%
Per unit metrics ⁽¹⁾						
Income - diluted	0.22	0.10	120%	0.43	0.10	330%
FFO	0.22	0.22	(1)%	0.45	0.43	5%
AFFO	0.19	0.19	—%	0.39	0.37	5%
Distributions	0.169	0.113	50%	0.338	0.113	199%

(\$000s)	30-Jun-14	31-Dec-13	Δ %
Total assets (\$000s)	476,468	454,743	5%
Equity (\$000s) ⁽²⁾	216,852	186,608	16%
Debt (\$000s) ⁽³⁾	207,522	215,601	(4)%
Weighted average interest rate on debt	3.97%	3.98%	—%
Debt to GBV ratio	46%	51%	(10)%
Finance costs coverage ratio ⁽⁴⁾	2.95	2.96	—%
Debt service coverage ratio ⁽⁵⁾	2.82	2.83	—%

Operational Highlights

(\$000s)	30-June-14	31-Dec-13	r%
Number of properties	32	29	10%
Gross leasable area (GLA) (sq. ft.)	1,837,439	1,691,920	9%
Occupancy % (weighted by GLA)	92.0%	90.6%	2%
Retention % (weighted by GLA)	78.3%	75.5%	4%
Weighted average remaining lease term (years)	4.65	4.75	(2)%
Weighted average base rent (per sq. ft.)	\$16.23	\$16.63	(2)%

- (1) The comparative 2013 figures are calculated as if the trust units and Class B LP Units which were issued in 2013 were outstanding during the entire comparative period.
- (2) Calculated as the sum of trust units and Class B LP Units at their book value.
- (3) Calculated as the sum of total amount drawn on revolving credit facility, mortgages payable and Class C LP Units, excluding unamortized fair value adjustment on Class C LP Units, unamortized transaction costs and unamortized discount on bankers acceptance.
- (4) Calculated as the sum of FFO and finance costs; divided by finance costs, excluding distributions on Class B LP Units.
- (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 Melcor REIT's Q2-2014 report to unitholders, including the consolidated financial statements and management's discussion and analysis for the three- and six-months ended June 30, 2014 which can be found on the REIT's website at www.MelcorREIT.ca or on SEDAR (www.sedar.com).

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 Canadian markets. Its portfolio is currently made up of interests in 32 properties representing approximately 1.84 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 more fully defined and reconciled in the REIT's Management Discussion and Analysis for the period ended June 30, 2014, 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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