

Press Release

for immediate distribution

Melcor REIT announces 2018 annual results

Edmonton, Alberta | March 7, 2019

Annual Highlights

- Rental Revenue of \$70.17 million for growth of 5% over 2017.
- Net rental income of \$42.08 million for growth of 5% over 2017.
- Adjusted funds from operations (AFFO) decreased 5% to \$19.15 million or \$0.68 per unit.
- Debt to Gross Book Value (GBV) ratio of 48%. Debt to GBV ratio of 56% including convertible debenture, below maximum threshold of 65%.
- Distributions of \$0.68 per trust unit paid out (\$0.05625 per trust unit per month).
- Payout ratio trended upward to 99% compared to 86% in 2017.

Quarterly Highlights

- Rental Revenue of \$17.34 million for an increase of 7% over Q4-2017.
- Net rental income of \$10.36 million, for an increase of 9% over Q4-2017.
- AFFO of \$4.79 million or \$0.17 per unit for an increase of 5% over Q4-2017.
- Occupancy declined to 89.9% compared to 91.8% at the end of 2017.

Melcor REIT (TSX: MR.UN) today announced results for the fourth quarter and year ended December 31, 2018. 2018 rental revenue grew 5% to \$70.17 million compared to \$66.61 million in 2017. Adjusted funds from operations was down 5% to \$19.15 million or \$0.68 per unit.

Andrew Melton, CEO of Melcor REIT commented: "It is our privilege to report to you as the REIT completed its fifth year. Since our inception in 2013, we've experienced challenging market conditions. Since 2015, the decline in the price of oil has negatively impacted Alberta, there has been an influx of office product in downtown Edmonton where 12% of our portfolio is located, and unfavourable policies implemented by new governments both provincially and nationally.

Throughout the year, we continued to execute on our strategy, leading to stable results. We've paid out total distributions of \$3.88 per unit to our unitholders since inception. We've maintained occupancy of approximately 90% through challenging markets. We've achieved our target of 95%+ on-time response on service calls for the past five years, which is a critical component of maintaining strong relationships with tenants for continued retention.

We've also grown our portfolio gross leasable area by 83% and re-balanced our asset class mix. We completed four vend-ins from Melcor - a key component of our growth strategy and our competitive advantage. In addition, we acquired assets from third parties and divested three assets to monetize the value we had created while at the same time diversifying our portfolio. Through these transactions, we've acquired 1,418,148 square feet and sold 118,125 square feet.

We continue to monitor and respond to market demand and trends in commercial real estate and to focus on exceptional customer care as a differentiating factor in a market where tenants have many options to choose from.

We remain committed to exceptional property management and customer care to ensure we remain the landlord of choice."

Highlights for the year include:

In 2018, we executed on our growth strategy by adding 205,825 sf of GLA through our fourth Melcor Acquisition under our right of first offer and through a third party acquisition. We were pleased to grow our portfolio through these acquisitions following two years spent focusing on improving and maintaining our existing assets. We also continued to look for capital recycling opportunities and divested two retail assets in 2018. May 1, 2018 marked the REIT's fifth year of operations. Over the past five years the REIT's portfolio has grown 83% or 1.30 million sf.

Highlights of our performance in the year include:

- Revenue and NOI growth of 5% over 2017 as a result of portfolio growth.
- We continued to execute on our proactive leasing strategy to both retain existing and attract new tenants. We completed lease renewals representing 305,344 sf (including holdovers) for a retention rate of 77.4% at December 31, 2018. New leasing has been steady across the portfolio with 72,967 sf in new deals commencing in 2018 and an additional 32,000 sf in committed leasing in office buildings for future occupancy.
- Same-asset NOI was down 1% in the fourth quarter and 5% over 2017, trending with a decline in same-asset occupancy. The decline in our Northern Alberta office assets was partially offset by stability in our retail and office assets in Southern Alberta and British Columbia.
- Net income 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 on Class B LP Units due to changes in the REIT's unit price. Management believes funds from operations (FFO) is a better reflection of our true operating performance. FFO was \$26.08 million or \$0.93 per unit (basic), down 2% from 2017. Lower FFO was primarily due to property dispositions completed earlier in the year, declining same-asset performance and proceeds from the over-allotment on the convertible debenture and trust units which have only been partially re-deployed to date.
- Adjusted funds from operations (AFFO) was \$19.15 million or \$0.68 per unit (basic), down 5% from 2017. The decrease in AFFO was due to lower same-asset NOI and an increase in normalized capital, tenant incentive and leasing commissions.
- We issued 2,035,500 trust units on January 12, 2018 to complete the Melcor Acquisition, increasing our public float by 18%.
- We paid monthly distributions of \$0.05625 per trust unit during 2018 FFO payout ratio of 73% and an AFFO payout ratio of 99%. Our payout ratios are impacted by undeployed capital following the sale of the two assets earlier this year. Near term liquidity provides the REIT with the flexibility to allocate available resources towards operational, investing and financing initiatives. We continue to pursue various opportunities to maximize value for our unitholders.
- We took advantage of favourable lending conditions and early re-financed our largest mortgage securing \$39.00 million in financing at an interest rate of 3.84% in 2018. Early re-financing was a strategy employed to mitigate and re-balance our risk in 2019, reducing our percentage of mortgage maturing from 32% to 16%.
- As at December 31, 2018 we have \$1.58 million in cash and \$29.92 million in additional capacity under our revolving credit facility. We conservatively manage our debt, with a debt to GBV within our target range.

Financial Highlights

	Three-months ended December 31			Year ended December 31		
(\$000s)	2018	2017	△%	2018	2017	△%
Non-Standard KPIs						
Net operating income (NOI)	11,006	10,237	8 %	43,983	42,101	4 %
Same-asset NOI	9,810	9,939	(1)%	38,962	40,803	(5)%
Funds from Operations (FFO)	6,382	5,991	7 %	26,084	26,670	(2)%
Adjusted Funds from Operations (AFFO)	4,792	4,567	5 %	19,152	20,194	(5)%
Adjusted Cash Flows from Operations (ACFO)	4,751	4,511	5 %	18,943	19,969	(5)%
Rental revenue	17,336	16,263	7 %	70,173	66,613	5 %
Income before fair value adjustment and taxes	3,059	2,743	12 %	12,930	13,742	(6)%
Fair value adjustment on investment properties ⁽⁵⁾	(6,224)	3,829	nm	(11,385)	(12,800)	nm
Cash flows from operations	3,583	3,326	8 %	11,870	13,605	(13)%
Distributions to unitholders	2,225	1,882	18 %	8,901	7,527	18 %
Distributions ⁽⁷⁾	\$0.17	\$0.17		\$0.68	\$0.68	
Per unit metrics						
Net income/(loss)						
Basic	\$0.54	\$1.05		\$1.34	\$0.07	
Diluted	\$0.04	\$0.35		\$0.43	\$0.07	
Weighted average number of units for net income/ (loss) (\$000s): ⁽⁶⁾						
Basic	13,187	11,151	18 %	13,120	11,151	18 %
Diluted	32,813	28,660	14 %	28,010	11,151	151 %
FFO						
Basic	\$0.23	\$0.23		\$0.93	\$1.04	
Diluted	\$0.21	\$0.23		\$0.90	\$1.02	
Payout ratio	74%	73%		73%	65%	
AFFO						
Basic	\$0.17	\$0.18		\$0.68	\$0.78	
Payout ratio	99%	95%		99%	86%	
Weighted average number of units for FFO & AFFO (000s): ⁽⁸⁾						
Basic	28,086	25,767	9 %	28,010	25,767	9 %
Diluted	32,813	28,736	14 %	32,737	28,555	15 %

	31-Dec-18	31-Dec-17	△%
Total assets (\$000s)	709,603	676,237	5 %
Equity (\$000s) ⁽¹⁾	280,401	260,600	8 %
Debt (\$000s) ⁽²⁾	390,918	353,340	11 %
Weighted average interest rate on debt	3.77%	3.75%	1 %
Debt to GBV, excluding convertible debentures (maximum threshold - 60%)	48%	47%	1 %
Debt to GBV (maximum threshold - 65%)	56%	56%	— %
Finance costs coverage ratio ⁽³⁾	2.60	2.93	(11)%
Debt service coverage ratio ⁽⁴⁾	2.30	2.60	(12)%

Operational Highlights

	31-Dec-18	31-Dec-17	△%
Number of properties	37	37	0 %
Gross leasable area (GLA) (sf)	2,868,901	2,710,862	6 %
Occupancy (weighted by GLA)	89.9%	91.8%	(2)%
Retention (weighted by GLA)	77.4%	80.6%	(4)%
Weighted average remaining lease term (years)	4.67	4.66	0 %
Weighted average base rent (per sf)	\$16.51	\$15.88	4 %

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. The abbreviation nm is shorthand for not meaningful and is used through this MD&A where appropriate.
6. For the purposes of calculating per unit net income/(loss) 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.
7. Distributions for the current and comparative periods have been paid out at a rate of \$0.05625 per unit per month
8. 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. The diluted weighted average number of units includes convertible debentures.

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 2018 consolidated financial statements and management's discussion and analysis, which 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 March 8, 2019 at 11:00 AM ET (9:00 AM MT). Call 1-647-484-0478 in the Toronto area; 800-289-0478 toll free.

The call will be webcast at <http://www.gowebcasting.com/9839>. A replay of the call will be available shortly after the call is concluded at the same address.

Annual General Meeting

We invite unitholders to join us at Melcor REIT's annual meeting on April 30, 2019 at 9:30 am MT. The meeting will be held in at the Fairmont Hotel Macdonald, 10065 100 Street NW. We look forward to seeing you there.

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 37 properties representing approximately 2.86 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 more fully defined and discussed in the REIT's management discussion and analysis for the period ended December 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.

Contact Information:

Nicole Forsythe
Director, Corporate Communications
Tel: 1.855.673.6931
ir@MelcorREIT.ca