

Press Release

for immediate distribution

Melcor REIT announces 2019 annual results

Edmonton, Alberta | March 5, 2020

Annual Highlights

- Rental revenue of \$71.16 million for growth of 1% over 2018.
- Net rental income of \$42.39 million for growth of 1% over 2018.
- Adjusted cash flow from operations (ACFO) decreased 3% to \$18.61 million or \$0.66 per unit.
- Debt to Gross Book Value (GBV) ratio of 50%. Debt to GBV ratio of 59% including convertible debentures, below maximum threshold of 65%.
- Distributions of \$0.68 per unit paid out (\$0.05625 per unit per month).
- ACFO payout ratio of 102% (FFO: 74%) compared to 99% (FFO: 72%) in 2018.

Quarterly Highlights

- Rental revenue of \$18.27 million for an increase of 5% over Q4-2018.
- Net rental income of \$10.73 million, for an increase of 4% over Q4-2018.
- ACFO of \$4.32 million or \$0.15 per unit for a decrease of 10% over Q4-2018.

Melcor REIT (TSX: MR.UN) today announced results for the fourth quarter and year ended December 31, 2019. Rental revenue grew 1% to \$71.16 million compared to 2018. The growth was driven by a 12% growth in the gross leasable area of the REIT's portfolio. Most of this growth happened mid-way through the fourth quarter. Adjusted cash flow from operations (ACFO) was down 3% to \$18.61 million or \$0.66 per unit. Management has determined that ACFO will be considered one of the primary metrics to analyze the REIT's business operations going forward. ACFO better reflects our cash position and therefore our ability to pay distributions by excluding accretion expense, which is a non-cash item. This change also follows the general real estate industry trend to focus on ACFO.

Darin Rayburn, CEO of Melcor REIT commented: "We continued to execute our strategy in 2019 and completed two third-party acquisitions to increase our GLA by 12%. Both acquisitions were retail properties, and with the major acquisition in Grande Prairie, Alberta (Melcor Crossing), they support both our retail growth target and our geographic diversification strategy. Retail currently makes up just under 44% of our portfolio and is above our target of 40% for the first time. In addition, this retail is predominantly comprised of service-oriented neighbourhood shopping centres and therefore doesn't face the same level of competitive pressure from online retailers that big box stores experience.

I am extremely proud of our team's execution on all fronts in what continues to be a challenging market. Throughout 2019, we have demonstrated time and again the reasons that we are the landlord of choice for so many of our clients. Both our property management and building operations teams achieved a tenant approval rating of 92% on a survey of all office properties conducted in November.

With a diverse product portfolio, we are able to support tenants through all stages: start-up, growth and mature companies. While we experienced some negative absorption in our downtown Edmonton office portfolio, we are excited about the opportunity to reposition one of our properties to attract new clients representing diverse sectors.

Completing the Melcor Crossing acquisition had a negative impact on fourth quarter results due to timing gaps between issuing the 2019 Debentures, closing the acquisition and redeeming the 2014 Debentures

resulting in an Adjusted Cash Flow from Operations payout ratio of 112% in the quarter and 102% for the year. We expect this to normalize going forward with the benefit of the full year of cash flow from the accretive acquisitions in 2019.”

2019 Highlights:

We continued to execute our growth and diversification strategies and increased our GLA by 12% through two third-party acquisitions. These acquisitions added 339,319 sf GLA and consisted of Melcor Crossing in Grande Prairie, Alberta and Staples Centre in Calgary, Alberta. These retail acquisitions support our long-term diversification strategy. For the first time, retail makes up 43.5% of our portfolio, above the 40% target set at IPO. In addition, Melcor Crossing is our entry into a new geographic market that we've been watching for a while and we are excited for its potential.

A significant impact on our results in the fourth quarter and for 2019 was the decision of a long-term tenant in downtown Edmonton to move their corporate operations. The Royal Bank of Canada vacated 47,088 sf (approximately 1.5% of our portfolio) on the expiration of their lease September 30, 2019. This vacancy impacted our retention and occupancy rates for December 31, 2019. Excluding this tenant, we retained 73.6% of expiring leases. We are excited about the opportunity to reposition this property to attract new clients representing diverse sectors.

Our portfolio performance remained stable through 2019 and we continue to see positive new leasing momentum. We are beginning to see new stability in spite of market fundamentals that remain challenging. We continue to proactively renew existing tenants and pursue new tenants. New leasing has been steady across the portfolio with 74,116 sf in new deals commencing in 2019 and an additional 85,000 sf in space committed for future occupancy. With a diverse product portfolio, we are able to support tenants through all stages: start-up, growth and mature companies.

The diversity of our portfolio with respect to both tenant profile and asset class enables the REIT to continue navigating through economic cycles.

Highlights of our performance in the year include:

FINANCIAL HIGHLIGHTS

- The 12% growth in portfolio GLA contributed to revenue growth of 1% and NOI growth of 3% over 2018. The major acquisition completed in 2019 closed in November and did not contribute to full-year results.
- Net income in the current and comparative periods is significantly impacted by non-cash fair value adjustments on investment properties and Class B LP Units. Management believes funds from operations (FFO) is a better reflection of our true operating performance. FFO was \$25.58 million or \$0.91 per unit (basic), down 2% from 2018. FFO was negatively impacted by higher finance costs due to timing related to the acquisition of Melcor Crossing and the redemption of the 2014 Debentures.
- Adjusted cash from operations (ACFO) was \$18.61 million or \$0.66 per unit (basic), down 3% from 2018. ACFO was also negatively impacted by higher finance costs as well as increased normalized tenant incentive and leasing commissions as market conditions remain challenging. Management has determined that ACFO will be considered one of the primary metrics to analyze our business operations going forward. ACFO better reflects our cash position and therefore our ability to pay distributions by excluding accretion expense, which is a non-cash item. This change also follows the general real estate industry trend to focus on ACFO.
- As at December 31, 2019 we had \$2.28 million in cash and \$11.88 million in additional capacity under our revolving credit facility. We conservatively manage our debt, with a debt to GBV within our target range.

OPERATING HIGHLIGHTS

- We continued to execute on our proactive leasing strategy to both retain existing and attract new tenants. We completed lease renewals representing 148,268 sf (including holdovers) for a retention rate of 59.6% at December 31, 2019. Our retention rate was significantly impacted by the departure of a major tenant, Royal Bank of Canada representing 47,088 sf or approximately 1.5% of our portfolio. Excluding this tenant we retained 73.6% of expiring leases. Approximately 22,000 sf of this vacant space is committed for future leasing.
- On April 24, 2019, we acquired Staples Centre, a 56,084 sf retail property with warehouse space in Calgary, AB for \$12.45 million from a third party.
- On November 12, 2019, we closed the acquisition of a 283,235 sf retail power centre on a 33.3 acre site located in Grande Prairie, AB for \$54.8 million from a third party.
- New leasing has been steady across the portfolio with 74,116 sf in new deals commencing in 2019 and an additional 85,000 sf in committed leasing for future occupancy.
- Same-asset NOI was flat over 2018 and down 4% in the fourth quarter. The decline in our Northern Alberta office assets, due to the RBC vacancy, was partially offset by stability in our retail and office assets in Southern Alberta and British Columbia.
- As part of a planned succession, Andrew Melton stepped down from his position of President and Chief Executive Officer on October 1, 2019 with Darin Rayburn being appointed his successor. We thank Andrew for stepping into the role when needed and look forward to his continued guidance as a member of our Board of Trustees.

CREATING UNITHOLDER VALUE

- On October 29, 2019 we announced the successful issue and sale of the 5.10% unsecured convertible debenture for gross proceeds of \$46.00 million, including \$6.00 million for the exercise of the over-allotment option in full.
- On November 12, 2019 we acquired a 283,235 sf regional shopping centre in Grande Prairie, Alberta from a third-party for \$54.8 million. This acquisition increased our portfolio GLA by 10% and was immediately accretive to AFFO per unit.
- On April 1, 2019 we commenced a normal course issuer bid (NCIB) which allows the REIT to purchase approximately 5% of our issued and outstanding trust units for cancellation. We believe that our units have been trading in a price range which does not reflect the value of the units in relation to our current and future business prospects. Under the NCIB, we have purchased 53,504 units for \$0.41 million at a weighted average cost of \$7.59 per unit or 77% of book value.
- We paid monthly distributions of \$0.05625 per trust unit during 2019 for a FFO payout ratio of 74% and an ACFO payout ratio of 102%. Our payout ratios were impacted in the fourth quarter by elevated finance costs and lower same-asset NOI. We have maintained our distribution since inception, paying steady distributions to our unitholders for seventy-six months.

Financial Highlights

	Three-months ended December 31			Year ended December 31		
(\$000s)	2019	2018	△%	2019	2018	△%
Non-Standard KPIs						
Net operating income (NOI)	11,446	11,006	4 %	45,300	43,983	3 %
Same-asset NOI	9,423	9,810	(4)%	38,792	38,962	— %
Funds from Operations (FFO)	6,002	6,382	(6)%	25,581	26,084	(2)%
Adjusted Funds from Operations (AFFO)	4,232	4,792	(12)%	18,485	19,152	(3)%
Adjusted Cash Flows from Operations (ACFO) ⁽⁹⁾	4,315	4,796	(10)%	18,610	19,123	(3)%
Rental revenue	18,273	17,336	5 %	71,159	70,173	1 %
Income before fair value adjustment and taxes	2,479	3,059	(19)%	11,845	12,930	(8)%
Fair value adjustment on investment properties ⁽⁵⁾	(1,364)	(6,224)	nm	(1,622)	(11,385)	nm
Cash flow from operations	2,467	3,583	(31)%	9,309	11,870	(22)%
Distributions to unitholders	2,216	2,225	— %	8,882	8,901	— %
Distributions ⁽⁷⁾	\$0.17	\$0.17		\$0.68	\$0.68	
Per unit metrics						
Net (loss)/income						
Basic	(\$0.40)	\$0.54		(\$0.04)	\$1.34	
Diluted	(\$0.40)	\$0.04		(\$0.04)	\$0.43	
Weighted average number of units for net income/ (loss) (\$000s): ⁽⁶⁾						
Basic	13,130	13,187	— %	13,162	13,120	— %
Diluted	31,505	32,813	(4)%	13,162	28,010	(53)%
FFO						
Basic	\$0.21	\$0.23		\$0.91	\$0.93	
Payout ratio	81%	74%		74%	72%	
AFFO						
Basic	\$0.15	\$0.17		\$0.65	\$0.68	
Payout ratio	114%	99%		103%	99%	
ACFO ⁽⁹⁾						
Basic	\$0.15	\$0.17		\$0.66	\$0.68	
Payout ratio	112%	99%		102%	99%	
Weighted average number of units for FFO & AFFO & ACFO (000s): ⁽⁸⁾						
Basic	28,703	28,086	2 %	28,226	28,010	1 %

	31-Dec-19	31-Dec-18	△%
Total assets (\$000s)	783,534	709,603	10 %
Equity (\$000s) ⁽¹⁾	289,873	280,401	3 %
Debt (\$000s) ⁽²⁾	454,013	390,918	16 %
Weighted average interest rate on debt	3.78%	3.77%	— %
Debt to GBV, excluding convertible debentures (maximum threshold - 60%)	50%	48%	5 %
Debt to GBV (maximum threshold - 65%)	59%	56%	6 %
Finance costs coverage ratio ⁽³⁾	2.45	2.60	(6)%
Debt service coverage ratio ⁽⁴⁾	2.26	2.30	(2)%

Operational Highlights

	31-Dec-19	31-Dec-18	△%
Number of properties	39	37	5 %
Gross leasable area (GLA) (sf)	3,208,950	2,868,901	12 %
Occupancy (weighted by GLA)	88.0%	89.9%	(2)%
Retention (weighted by GLA)	59.6%	77.4%	(23)%
Weighted average remaining lease term (years)	4.37	4.67	(6)%
Weighted average base rent (per sf)	\$16.79	\$16.51	2 %

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. This metric is not calculated for purposes of covenant compliance on any of our debt facilities. Please refer to page 24 of the MD&A for further discussion and analysis.
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. This metric is not calculated for purposes of covenant compliance on any of our debt facilities. Please refer to page 24 of the MD&A for further discussion and analysis.
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, AFFO and ACFO the basic weighted average number of units includes Trust Units and Class B LP Units.
9. In Q4-2019 we amended our definition of amortization of deferred financing fees to exclude accretion on convertible debenture. Amortization of deferred financing fees is an adjusting item in the calculation of ACFO. This change has been applied retroactively.

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 2019 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 6, 2020 at 11:00 AM ET (9:00 AM MT). Call 1-416-340-2216 in the Toronto area; 800-377-0758 toll free.

The call will be webcast at <http://www.gowebcasting.com/10462>. 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 May 20, 2020 at 9:30 am. The meeting will be held on the 6th floor of the Melton Building, 10310 Jasper Avenue NW. We look forward to seeing you there. The AGM will also be webcast in listen only mode. You may listen at <http://www.gowebcasting.com/10533>. A replay will be available shortly after the AGM concludes.

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 39 properties representing approximately 3.21 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, 2019, 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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