Press Release

for immediate distribution

Melcor REIT announces second quarter 2020 results and declares monthly distribution of $0.03 per trust unit

Edmonton, Alberta | August 6, 2020

Highlights

- Rental revenue was up 4% over Q2-2019 at $18.10 million; up 6% at $37.39 million year to date
- Net operating income grew 3% over Q2-2019 at $11.74 million; up 6% at $23.70 million year to date
- Adjusted cash flow from operations (ACFO) was down 1% to $4.74 million or $0.16 per unit over Q2-2019, and increased 3% to $9.71 million or $0.33 per unit year to date
- Occupancy remained stable over Q1-2020 at 88%;
- External valuation professionals revalued our entire portfolio resulting in fair value losses of $57.30 million, or 7% of total portfolio value.
- Distributions of $0.03 per trust unit were paid in April, May and June for an ACFO quarterly payout ratio of 55%

Melcor REIT (TSX: MR.UN) today announced results for the second quarter ended June 30, 2020. Rental revenue was up 4% compared to the Q2-2019 and up 6% over the prior year. Net operating income increased 3% over Q2-2019 to $11.74 million and by 6% to $23.70 million year to date. ACFO was up 3% over 2019 due to the 66% increase in cash flows from operations.

Darin Rayburn, President & CEO of Melcor REIT commented: "Our results for Q2-2020 and the first half of the year continue to benefit from the strategic acquisitions completed in 2019, which contributed to growth in revenue, net operating income and ACFO in spite of negative pressures due to COVID-19.

Positive leasing momentum of the past few quarters contributed to a strong 79.4% retention rate. We have closed 56,539 sf in new deals to date with a further 46,000 sf committed for future occupancy.

While we do not believe we are out of the woods with respect to COVID-19 and the ways that it may continue to impact our business, we do believe that our quick response to ensure the cleanliness and safety of our properties, conserve cash and our willingness to work with our tenants has placed us where we are today. We have collected 83% of Q2-2020 rent, leaving $5.15 million outstanding from tenants of which we have recorded $0.77 million in provisions for doubtful accounts. The majority of tenants are working cooperatively with us in finding mutually acceptable arrangements for arrears.

Due to non-essential business closure orders issued by the provincial governments, some of our retail tenants were closed at the beginning of the quarter. Most were allowed to re-open mid May; however, many retailers took a very cautious approach to reopening, including delaying their opening to ensure they could comply with new recommendations and procedures to protect the health and safety of their customers and staff. To date, we have received requests to apply for the CECRA program from approximately 10% of tenants representing 8% of total GLA. We cannot yet determine how many of these applications will be successful. We believe, based on existing information, that our net exposure to CECRA claims for the Q2 period is approximately $0.50 million.

With increased uncertainty about the valuation of our properties, we had our external valuation professionals evaluate our entire portfolio in the quarter, which resulted in fair value losses of $57.30 million, or 7% of our portfolio value.

We believe that continued solidarity and partnership with our tenants will provide them the best opportunity to endure the pandemic and be successful in the long-term.

We continue to monitor the situation, make thoughtful decisions and take action to come through this together with our tenants."

Q2-2020 Highlights:

Our portfolio performance remained stable through the first six months of 2020 in spite of the COVID-19 pandemic and already challenging markets. While leasing activity has slowed as a result of the pandemic, we have continued to proactively engage with existing tenants on renewal terms and pursue new tenants, resulting in a healthy retention rate of 79.4% at quarter-end and overall occupancy of 88.0%.

Highlights of our performance in the second quarter include:

FINANCIAL HIGHLIGHTS

- Portfolio growth of 12% (based on sf) via third party acquisitions in 2019 contributed to revenue growth of 4% and net operating income (NOI) growth of 3% compared to Q2-2019.
- Net income in the current and comparative periods is significantly impacted by fair value adjustments on investment properties due to changes in NOI/capitalization rates and by non-cash fair value adjustments 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 $6.51 million or $0.22 per unit, compared to $6.48 million or $0.23 in Q2-2019.
- Year-to-date adjusted cash from operations (ACFO) was up 3% at $9.71 million or $0.33 per unit, compared to $9.42 million or $0.34 per unit in 2019. Adjusted cash flow from operations (ACFO) was down 1% to $4.74 million or $0.16 per unit over Q2-2019. Management believes that ACFO best reflects our cash position and therefore our ability to pay distributions.
- As at June 30, 2020 we had $3.75 million in cash and $8.00 million in additional capacity under our revolving credit facility.

OPERATING HIGHLIGHTS

- Year-to-date same-asset NOI was down 5% compared to Q2-2019 due to a $0.69 million provision for bad debts recorded in the quarter, in addition to the drag from the large tenant that vacated a downtown Edmonton office building on October 1, 2019.
- We continued to execute on our proactive leasing strategy to both retain existing and attract new tenants. We completed lease renewals representing 150,513 sf (including holdovers) for a retention rate of 79.4% at June 30, 2020. New leasing has been steady across the portfolio with 56,539 sf in new deals commencing to date in 2020 and an additional 46,000 sf committed for future occupancy.

CREATING UNITHOLDER VALUE

- We paid distributions of $0.03 per trust unit in April, May and June for a three-month quarterly payout ratio of 55% based on ACFO and 40% based on FFO. Distributions in the second quarter were reduced 47% from the previously paid $0.05625 in order to conserve cash to respond to the current market volatility.
- On April 1, 2020 we commenced a new NCIB. We are entitled to purchase up to 655,792 trust units for cancellation, representing approximately 5% of the REIT's issued and outstanding trust units. The trust units may be repurchased up to a maximum daily limit of 3,207. The price which the REIT will pay for trust units repurchased under the plan will be the market price at the time of acquisition. The NCIB ends one year from commencement, on March 31, 2021. Under this NCIB, we purchased 59,526 units for $0.21 million at a weighted average cost of $3.50 per unit or 36% of book value.
- Following the expiration of the blackout on May 15, 2020 the REIT suspended its purchases under the NCIB program and cancelled its Automatic Share Purchase Plan (ASPP) in light of continued market volatility and as part of our cash conservation program. The REIT still believes 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.

SUBSEQUENT EVENT

- On July 15, 2020 we declared a distribution of $0.03 per trust unit for the month of July, payable on August 17, 2020 to unitholders on record July 31, 2020. Today the Board declared a distribution of $0.03 per trust unit for the month of August, payable on September 15, 2020 to unitholders' of record on August 31, 2020.

Financial Highlights

($000s)	Three months ended June 30 **2020**	2019	△%	Six months ended June 30 **2020**	2019	△%
Non-standard KPIs						
Net operating income (NOI)	**11,739**	11,382	3 %	**23,703**	22,394	6 %
Same-asset NOI	**10,527**	11,229	(6)%	**21,198**	22,240	(5)%
Funds from operations (FFO)	**6,513**	6,478	1 %	**13,243**	13,009	2 %
Adjusted funds from operations (AFFO)	**4,636**	4,776	(3)%	**9,498**	9,393	1 %
Adjusted cash flow from operations (ACFO)[5]	**4,740**	4,789	(1)%	**9,706**	9,420	3 %
Rental revenue	**18,097**	17,474	4 %	**37,389**	35,418	6 %
Income before fair value adjustments	**4,152**	2,925	42 %	**7,094**	6,177	15 %
Fair value adjustment on investment properties[1]	**(51,109)**	(1,879)	nm	**(57,296)**	(720)	nm
Cash flows from operations	**2,952**	1,112	165 %	**6,405**	3,863	66 %
Distributions to unitholders	**1,174**	2,223	(47)%	**3,390**	4,448	(24)%
Distributions[2]	**$0.09**	$0.17	— %	**$0.26**	$0.34	— %
Per Unit Metrics						
Net income						
Basic	**($4.64)**	$—		**$1.76**	$0.18	
Diluted	**($4.64)**	$—		**($1.50)**	$0.18	
Weighted average number of units for net income (000s):[3]						
Basic	**13,091**	13,173	(1)%	**13,112**	13,180	(1)%
Diluted	**13,091**	13,173	(1)%	**29,237**	13,180	122 %
FFO						
Basic	**$0.22**	$0.23		**$0.45**	$0.46	
Diluted	**$0.21**	$0.23		**$0.43**	$0.46	
Payout ratio	**40 %**	73 %		**57%**	73%	
AFFO						
Basic	**$0.16**	$0.17		**$0.32**	$0.33	
Payout ratio	**57 %**	99 %		**80%**	101%	
ACFO[5]						
Basic	**$0.16**	$0.17		**$0.33**	$0.34	
Payout ratio	**55 %**	99 %		**78%**	101%	
Weighted average number of units for FFO, AFFO and ACFO (000s):[4]						
Basic	**29,216**	28,073	4 %	**29,237**	28,079	4 %
Diluted	**36,384**	32,800	11 %	**36,406**	32,807	11 %

1. *The abbreviation nm is shorthand for not meaningful.*
2. *Distributions for the current period have been paid out at a rate of $0.05625 per unit for the months of January, February and March and $0.03 per unit for the months of April, May and June. Distributions for the comparative periods have been paid out at a rate of $0.05625 per unit per month.*
3. *For the purposes of calculating per unit net income 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.*
4. *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. The diluted weighted average number of units includes convertible debentures.*
5. *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 was applied retroactively.*

	Jun 30, 2020	Dec 31, 2019	△%
Total assets ($000s)	**731,280**	783,534	(7)%
Equity ($000s)[1]	**289,055**	289,873	— %
Debt ($000s)[2]	**454,415**	454,013	— %
Weighted average interest rate on debt	**3.74%**	3.78%	(1%)
Debt to GBV, excluding convertible debentures (maximum threshold - 60%)	**50%**	50%	—%
Debt to GBV (maximum threshold - 65%)	**59%**	59%	—%
Finance costs coverage ratio[3]	**2.40**	2.45	(2)%
Debt service coverage ratio[4]	**2.81**	2.26	24 %

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 (as applicable) 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 metrics is not calculated for purposes of covenant compliance on any of our debt facilities. Please refer to page 17 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 metrics is not calculated for purposes of covenant compliance on any of our debt facilities. Please refer to page 17 of the MD&A for further discussion and analysis.*

Operational Highlights

	Jun 30, 2020	Dec 31, 2019	△%
Number of properties	**39**	39	— %
Gross leasable area (GLA) (sf)	**3,208,277**	3,208,950	— %
Occupancy (weighted by GLA)	**88.0%**	88.0%	—%
Retention (weighted by GLA)	**79.4%**	59.6%	33%
Weighted average remaining lease term (years)	**4.30**	4.37	(2)%
Weighted average base rent (per sf)	**$16.68**	$16.79	(1)%

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 Q2-2020 quarterly report to unitholders. The REIT's consolidated financial statements and management's discussion and analysis for the three and six-months ended June 30, 2020 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 Friday, August 7, 2020 at 11:00 AM ET (9:00 AM MT). Call 416-915-3239 in the Toronto area; 1-800-319-4610 toll free.

The call will also be webcast (listen only) at www.gowebcasting.com/10700. 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 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 defined and discussed in the REIT's MD&A for the quarter ended June 30, 2020, 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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