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MELCOR | REIT

Melcor REIT is an unincorporated, open-ended real estate investment trust. We own, acquire, manage and lease quality retail, office and industrial income-generating properties. Our portfolio is currently made up of interests in 39 properties representing approximately 3.21 million square feet of gross leasable area located in and around Edmonton, Calgary, Lethbridge, Grande Prairie and Red Deer, Alberta; Regina, Saskatchewan; and Kelowna, British Columbia.

Backed by Melcor Development's 96 year history, Melcor REIT was borne out of a proud tradition of real estate excellence in western Canada. Our growth potential is a true competitive advantage, with the right to acquire Melcor's pipeline of newly constructed, high quality retail, industrial and office projects. Subsequent to the initial acquisition in 2013, we have vended-in over 1 million sf from Melcor, and there is a further 5.5 million sf in current and future projects to be built over the next 5 to 15 years.

FACTS & DATA

39

ASSETS

\$71.2M

REVENUE

\$783.5M

ASSET FAIR VALUE

102%

ACFO PAYOUT RATIO

GLA BY PROPERTY TYPE



Office - 50%
Retail - 44%
Industrial - 6%

GLA BY REGION



Northern Alberta - 61%
Southern Alberta - 28%
BC & SK - 11%

RENT BY TENANT PROFILE



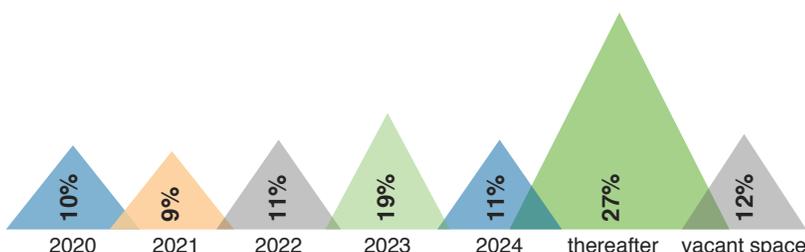
Local - 36%
National - 46%
Regional - 18%

RENT BY TENANT INDUSTRY

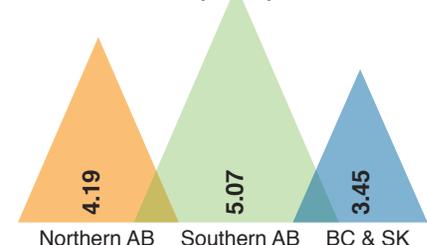


Finance - 9%
Government - 6%
Hospitality - 15%
Industrial - 5%
Medical - 7%
Oil & Gas - 2%
Other - 6%
Professional - 18%
Residential - 2%
Retail - 30%

GLA EXPIRING (%)



WEIGHTED AVERAGE LEASE TERM REMAINING (YEARS)





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WHAT'S INSIDE

- 2** Message from the Chair
- 3** Message from the Chief Executive Officer
- 7** Property Information
- 8** Environmental, Social Responsibility & Governance
- 9** Corporate Information

MELCOR CENTRE
EAST ENTRANCE




Ralph Young

MESSAGE FROM THE CHAIR

Melcor REIT had a successful year given the challenging economic times in the regions where the REIT owns and manages properties.

During 2019, the REIT conducted several major transactions which have had positive impacts. The acquisition of the Grande Prairie power centre (now called Melcor Crossing) diversified our asset base with the entry into a new market and increased the retail component of our portfolio to over 40%, while also being accretive to the REIT's financial position. The REIT also issued an oversubscribed convertible debenture at 5.1% with proceeds used to complete the acquisition and to redeem a prior debenture.

Tenant retention and new leasing was on par with our expectations for 2019. Lease rates and tenant inducements continue to have a negative but manageable drag on net operating income.

Upon the retirement of Andrew Melton, Melcor Developments recommended that Darin Rayburn resume the role of President and CEO of the REIT, in conjunction with his continuing role as President and CEO of Melcor Developments. Darin and his team continue to provide high quality and professional management of REIT assets.

The Trustees acknowledge Andrew's significant and positive leadership with gratitude. Andrew stepped into the role while Melcor Developments underwent management changes over the past few years. Andrew continues to provide his experience and wisdom as a Trustee of the Board, which he has served since its inception.

The Board was pleased to welcome Carolyn Graham and Richard Kirby as Trustees in 2019. Both Carolyn, who chairs the REIT Audit Committee, and Richard bring strong professional backgrounds and new perspectives to the Board. We also acknowledge the contributions of Donald Lowry over the past 7 years. Donald will be retiring at the upcoming annual general meeting. Donald held the role of Lead Trustee and Chair of the Governance Committee since the REIT's inception. Darin Rayburn will also retire from the board to maintain a majority of independent Trustees.

In addition to broad governance responsibilities, the Board has been particularly vigilant in monitoring the REIT's financial performance to ensure its financial stability and unitholder distributions.

As I write this report, the Board is aware of the uncertainty of financial markets, the economic and political factors impacting western Canada, as well as health and economic factors of a global pandemic. The Board continues to monitor these issues to ensure that the REIT operations and financial impacts are managed appropriately.

I wish to extend our Board's appreciation to our unitholders for your confidence in our business, to the support of our major unitholder and asset manager Melcor Developments Ltd., and to our many tenants and suppliers. All have contributed to our REIT's success as we continue to build an exceptional and sustainable organization in the interests of all stakeholders.

We continue to offer investors an opportunity to own well managed and high quality real estate, sponsored by an experienced real estate developer and manager, in western Canada.





Darin Rayburn

LETTER FROM THE PRESIDENT & CEO

It is my privilege to report to you, our Unitholders. Our annual report typically explains the results of the past year and provides insight into where the REIT is going in the current year. We usually celebrate the past and look forward to the upcoming year. However, as we submit this year's annual Letter to Unitholders, with the current global COVID-19 pandemic and OPEC+ price war, 2019 feels like a long time ago. These unprecedented events have produced a double-whammy for Alberta, with sub \$10/barrel for Western Canadian Select (WCS) oil and the forced shutdown of many retail service industry operations to stop the spread of COVID-19. Both events led to significant reductions in consumer spending and labour, with both temporary and permanent layoffs. This continues to unfold before our eyes without any indication of when we will see the other side of the pandemic or the price war.

Before we look at our present situation, I would like to take a brief moment to reflect on 2019.

We continued to execute on our strategies for growth which are to:

- **Acquire** (via third party or our proprietary pipeline from Melcor Developments Ltd.) and to
- **Improve** (through property management excellence and redevelopment or densification of existing properties).

We completed two acquisitions to increase our gross leasable area by 12% and increased the retail composition of our portfolio to over 40%. With the acquisition of Melcor Crossing in Grande Prairie, we also advanced our geographic diversification strategy. Both acquisitions were immediately accretive to earnings; however, Melcor Crossing 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 also continued to realize our strategies to improve and achieved the following:

- **Landlord of Choice:** 92% approval rating for our property management and operations teams based on tenant surveys across our office portfolio. Strong relationships are what will help us to move forward and retain these tenants through these challenging times and beyond.
- **Signature Care:** met our target of responding to service requests within 30 minutes greater than 95% of the time (2019: 99%)
- **Increase Efficiency:** with ongoing monitoring and analysis of our energy usage to identify potential improvements, we reduced equivalent greenhouse gases by 30% (based on 12 properties benchmarked from 2012-2019).
- **ENERGY STAR:** One of our buildings achieved ENERGY STAR certification in early 2020. This certification recognizes the top 25% of office buildings in Canada for efficiency.

We also made progress on other fronts, including continued success with leasing in challenging markets for occupancy of 88% at year end.

I am extremely grateful and proud of our team's execution on all fronts in what was a challenging market. Throughout 2019, we demonstrated time and again the reasons that we are the landlord of choice for so many of our clients.

That was then. And this is now.

At the same time as COVID-19 continued its rapid spread around the globe and arrived in Alberta, Saudi Arabia initiated a price war with Russia triggering a staggering fall in the price of oil. The price gap between WTI and WCS widened. WCS was below five dollars a few days ago, well below what it costs to produce.

We are navigating an unprecedented global challenge that has significantly negatively impacted and may continue to impact our tenants, particularly if health and government authorities implement further restrictions and shutdowns. While the recently announced government programs are designed to support businesses in financial stress, it is too early to determine how and when these programs will take effect.

We have moved from a reactionary position due to the speed at which the economy shut down and now find ourselves responding to needs and focusing on intentional actions to manage through this crisis.

On March 20, we announced that our April distribution, payable May 15, would be cut by 47% down to \$0.03 from the \$0.05625 that the REIT had maintained for 82 months. This difficult, yet proactive decision was made by our board and management to preserve cash so that we are better positioned to support tenants who require rent relief to survive the crisis.



We are taking this step, along with implementing other cost saving and cash management strategies, to continue strengthening our balance sheet and to lay the foundation to respond to reduced demand for space over an uncertain time period in the wake of this global crisis. The REIT has also deferred capital spending of approximately \$1.3 million planned for 2020.

With a diversified portfolio, proven management team and history of adapting through challenging times, we remain well positioned to manage through this period of uncertainty.

Managing cash flow while also maintaining a safe environment for our tenants and visitors during the COVID-19 crisis is our priority. We hope that the measures we have taken and are continuing to take will reduce stress on tenants and slow the spread of COVID-19 so that we can all return to business.

Tenants in our retail developments are a mix of essential services such as national grocers, gas stations and pharmacies and businesses that have been shut down by the government of Alberta, such as smaller local service providers. Retail property rental revenue comprised 46% of the REIT's total rental revenue in 2019.

We are continuing to monitor the situation and respond accordingly. We will continue to keep all stakeholders informed and appreciate your ongoing support.

IN APPRECIATION

In closing, I would like to express my deep appreciation to our Trustees. Thank you for your ongoing support, guidance and wisdom, in particular over the past few months. In particular, I acknowledge Donald Lowry for his 7 years of service to the REIT as our Lead Trustee and wish him all the best. Mr. Lowry is not seeking re-election at our AGM.

I am incredibly grateful to the Melcor Developments team for their commitment, passion and dedication to the exceptional work they do every day to take care of our tenants and manage our properties. I am extremely proud of the team's response to the challenges the current situation has created.

To our tenants, thank you for your business. We commit to work together to respond to this crisis and find our way through it so we can all move forward and get back to business.

Finally, I thank our unitholders for your ongoing support and trust in the REIT and our business. The road has been stormy and these past few weeks particularly difficult. We appreciate your notes of support as we navigate through these unprecedented times doing our best to make the right decisions for everyone. We are an ecosystem that relies on one another and we strive to make decisions that support our unitholders and our tenants for the long-term success of each and every one of us.

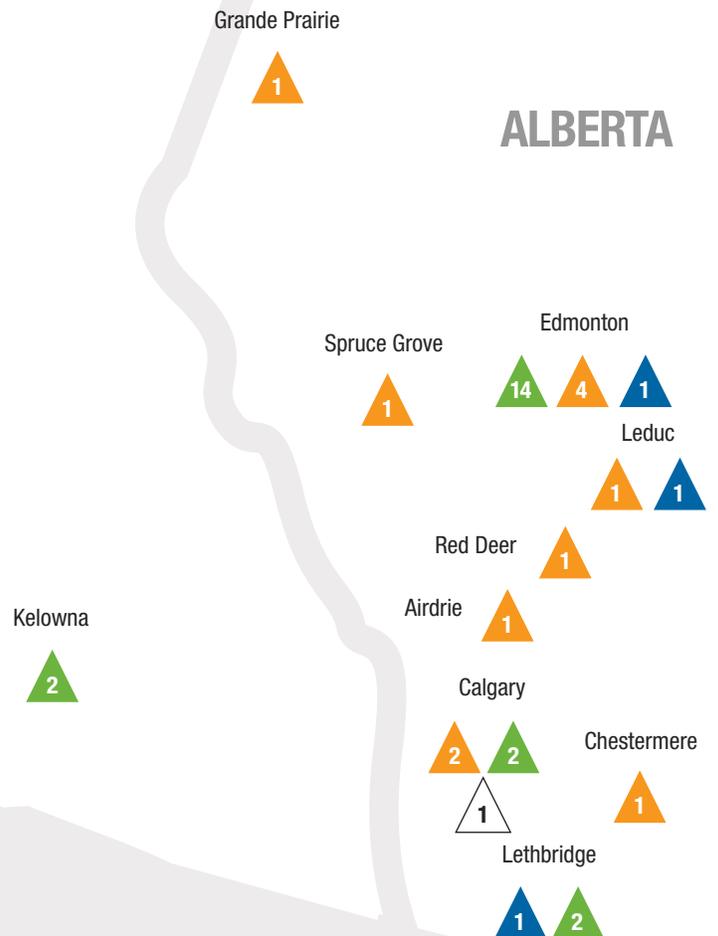




3.21M OWNED SQUARE FEET

BRITISH
COLUMBIA

ALBERTA



MELCOR | REIT

Our goal is to provide stable monthly cash distributions to unitholders by acquiring high quality properties and diversifying our portfolio.

SASKATCHEWAN

Regina



OFFICE BUILDINGS	LOCATION	GLA	OCC %
Crowfoot Building	Calgary	67,293	83
Kensington Road	Calgary	24,044	72
100 Street Place	Edmonton	44,294	82
10117 Jasper Avenue	Edmonton	132,373	37
Birks Building	Edmonton	35,106	100
Capilano Centre	Edmonton	45,487	67
Melton Building	Edmonton	114,612	77
Princeton Place	Edmonton	59,081	59
Select Building	Edmonton	23,432	100
Stanley Buildings	Edmonton	34,976	99
Sterling Centre	Edmonton	67,909	91
Trail Centre	Edmonton	77,296	60
Village at Blackmud Creek	Edmonton	48,335	94
Westcor Building	Edmonton	72,810	77
Westgate Centre	Edmonton	75,141	94
White Oaks	Edmonton	30,496	93
Kelowna Centre	Kelowna	72,076	98
Richter Street	Kelowna	28,978	100
LFS Building	Lethbridge	33,196	100
Melcor Centre	Lethbridge	449,862	94
Executive Terrace	Regina	42,843	62
Parliament Place	Regina	24,411	90
TOTAL		1,604,051	82

RETAIL BUILDINGS	LOCATION	GLA	OCC %
Chestermere Station	Chestermere	84,594	97
Kingsview Market	Airdrie	99,987	99
Staples Centre	Calgary	23,238	100
The District	Calgary	56,084	100
Coast Home Centre	Edmonton	59,854	100
Leduc Common	Leduc	283,174	92
Village at Blackmud Creek	Edmonton	9,046	100
West Henday Promenade	Edmonton	77,970	100
Westgrove Common	Spruce Grove	29,242	100
White Oaks	Edmonton	127,824	99
Melcor Crossing	Grande Prairie	283,235	91
Liberty Crossing	Red Deer	64,240	50
Market Mall	Regina	42,912	76
Towers Mall	Regina	114,170	99
University Park	Regina	41,238	91
TOTAL		1,396,808	93

INDUSTRIAL BUILDINGS	LOCATION	GLA	OCC %
Telford	Leduc	143,118	100
TKE Building	Edmonton	15,968	100
Lethbridge Industrial	Lethbridge	49,005	100
TOTAL		208,091	100

LAND LEASE COMMUNITY	LOCATION	GLA	OCC %
Watergrove	Calgary	308	100

ENVIRONMENTAL, SOCIAL RESPONSIBILITY & GOVERNANCE

ENVIRONMENTAL COMMITMENT

- 100% of our properties use LED lights and 80% have motion sensing lights that turn off when no one is present.
- Xeriscaping at our retail properties reduces the need for supplemental water by using native plants and trees.
- We reduced equivalent greenhouse gases by 30% from 2012 – 2019 (based on 12 properties monitored by specialists).
- One building at the Village at Blackmud Creek achieved ENERGY STAR certification in early 2020, recognizing the top 25% most efficient office buildings in Canada.

SOCIAL RESPONSIBILITY

- We demonstrate social responsibility through our relationships with tenants and the communities where we operate. Our commitment to being the landlord of choice is much more than a slogan. Our property managers and building operators achieved a 92% approval rating from office tenants at 16 buildings.
- Of the management team that oversees, leases and manages the REIT's portfolio, 54% are female and the overall breakdown in the division is 56% male and 44% female.
- Many of our office properties are enhanced by public art installations, usually external so they can be enjoyed by all.
- Our focus on relationships extends to our service providers as well. The majority of our service providers are local and many are small businesses that support our local economies.

GOVERNANCE

- We are committed to effective governance practices as a core component of our operating philosophy.
- The majority of our Trustees are independent.
- A lead director is appointed when the Chair is related.
- Arrangements with Melcor require the approval of a majority of our independent trustees, providing independent oversight on all transactions to represent the interests of minority unitholders.
- 14% of trustees are female; 25% of independent trustees.
- 50% of the REIT's executive team is female.



ANNUAL GENERAL MEETING

Please join our annual general meeting via webcast.

**Thursday
June 25, 2020
9:30 AM MT**

gowebcasting.com/10533

We will be webcasting the AGM. We encourage you to vote your proxy in advance and to enjoy the meeting from the safety and comfort of your home or office. In-person attendance will not be possible.



UNITHOLDER SERVICES

For unitholder services including distribution information, contact:

AST Trust Company (Canada)

PO Box 700 Station B
Montreal, QC H3B 3K3

P. 1.800.387.0825

F. 1.800.781.3111

E. inquiries@astfinancial.com

W. astfinancial.com/ca

EXCHANGE LISTING

Toronto Stock Exchange:
REIT Units: MR.UN

5.25% Convertible Debenture: MR.DB.A
5.10% Convertible Debenture: MR.DB.B

CUSTOMER SERVICE

For tenant services, please contact:

P. 1.866.MELCOR1

W. Care.Melcor.ca

E. service@care.melcor.ca

INVESTOR RELATIONS

Nicole Forsythe

P. 1.855.673.6937

E. IR@MelcorREIT.ca

AUDITORS

PricewaterhouseCoopers LLP

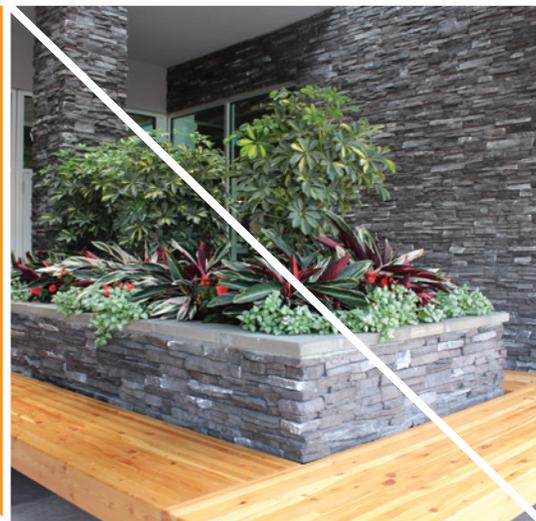
LEGAL COUNSEL

Bryan & Company LLP

2019 TAX INFORMATION

Regular Income – 30%

Return of Capital – 70%



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