

## PRESS RELEASE

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# Melcor Developments announces third quarter results, declares quarterly dividend of \$0.13

Edmonton, Alberta | November 3, 2017

Melcor Developments Ltd. (TSX: MRD), an Alberta-based real estate development and asset management company, today reported results for the quarter ended September 30, 2017. Third quarter revenue was \$62.80 million, down 1% over Q3-2016. Revenue for the first half of the year was \$148.32 million, up 9%.

Year to date revenue growth was driven by a significant increase in sales in the Community Development division, with divisional revenue up 23% compared to 2016. This was offset by the 2% decline in Investment Property revenue as a US asset was sold in December 2016.

Net income for the quarter was \$11.52 million or \$0.34 per share (basic), down 29% over Q3-2016. Year to date net income was \$6.44 million or \$0.19 per share (basic) compared to \$10.32 million or \$0.31 per share (basic) in the same period of 2016. Year to date net income is significantly impacted by the \$12.75 million non-cash fair value loss on investment properties. This loss was primarily the result of an increase in capitalization rates on our downtown Edmonton office properties recorded in the first quarter. This compares to a gain of \$15.59 million in the nine months ended in 2016.

Funds from operations (FFO) was \$12.79 million or \$0.34 per share (basic) in the quarter, up 25% over Q3-2016. Year to date FFO was \$28.17 million or \$0.84 per share compared to \$22.80 million or \$0.69 per share in the same period of 2016. FFO eliminates the elements that have no cash impact on our business from net income and management believes FFO better reflects Melcor's true operating performance.

Darin Rayburn, Melcor's President and Chief Executive Officer, commented on the quarter: "We continue to see stable performance across the company and are pleased with our results through the first nine months of 2017. Our Community and Property Development divisions have had an active fall construction season with mild weather and no snow through the end of October.

Our Investment Properties and REIT divisions continue to perform steadily, with stable occupancy and operating results on our portfolio of commercial and residential assets.

I am grateful to each member of our team for demonstrating creativity and innovation in response to an economic environment that has changed dramatically over the past several years. Our team has continually adapted their business to meet changing market needs and our stable results in 2017 are attributable to their commitment to understand and adjust to the market across all divisions.

Overall, our geographic diversity, product mix, conservatively managed balance sheet and strong team provide us with a solid foundation for the future in spite of ongoing market stress. We are well positioned going into our fourth quarter, which has historically been our strongest quarter of the year."

The Board today declared a quarterly dividend of \$0.13 per share, payable on December 29, 2017 to shareholders of record on December 15, 2017. The dividend is an eligible dividend for Canadian tax purposes.

## Third Quarter Results

We achieved stable results in each of our main operating divisions in Q3-2017 and year to date, with year to date growth in revenue driven by the 23% increase in revenue in the Community Development division. We continue to focus on working with our builders to diversify our product mix with an emphasis on affordable lot options. This strategy has positively impacted our financial results, with inventory remaining well-positioned in many of our active communities.

Our Community Development and Property Development divisions have been busy through the 2017 construction season. Driven by builder demand, the Community Development division began development of new community phases in many of our operating regions. The Property Development team has 185,000 sf in development underway for 2017. During the quarter, two properties were completed and transferred to our Investment Properties division.

Highlights of the third quarter include:

- Revenue of \$62.80 million remained steady compared to Q3-2016 and grew by 9% to \$148.32 million year to date. Year to date revenue growth of 23% in the Community Development division is the largest driver in the overall revenue growth.

- The Investment Properties and REIT division combined revenue remained steady over 2016 as a result of stable occupancy and gross leasable area in the portfolio.
- Net income was \$11.52 million in the quarter and \$6.44 million year to date. Year to date net income is significantly impacted by the \$12.75 million non-cash fair value loss on investment properties. This loss was primarily the result of an increase in capitalization rates on our downtown Edmonton office properties recorded in the first quarter, as well as fair value losses on REIT units due to unit price appreciation.
- Funds from operations was \$28.17 million year to date, up 24% over the same period last year. Management believes funds from operations (FFO) is a more accurate reflection of our true operating performance.
- We continue to invest in land holdings for future development and made the following acquisitions during Q3-2017:
  - 14.55 acres of commercial raw land in Leduc, AB for a purchase price of \$10.11 million,
  - 10.00 acres in Red Deer, AB for a purchase price of \$0.79 million,
- On September 18, 2017 we sold a parking lot in downtown Edmonton for \$3.05 million (\$2.99 million net of transaction costs).
- We paid a quarterly dividend of \$0.13 per share on September 29, 2017. The REIT paid distributions of \$0.05625 per trust unit in July, August and September for a quarterly payout ratio of 84%.
- On November 3, 2017 we declared a quarterly dividend of \$0.13 per share, payable on December 29, 2017 to shareholders of record on December 15, 2017. The dividend is an eligible dividend for Canadian tax purposes.

## Selected Highlights

| (\$000s except as noted)   | Three months ended |            |         | Nine months ended |            |         |
|----------------------------|--------------------|------------|---------|-------------------|------------|---------|
|                            | 30-Sept-17         | 30-Sept-16 | Change  | 30-Sept-17        | 30-Sept-16 | Change  |
| Revenue                    | 62,795             | 63,432     | (1.0)%  | 148,317           | 136,070    | 9.0 %   |
| Gross margin (%) *         | 44.4%              | 45.9%      | (1.5)%  | 46.2%             | 48.0%      | (1.8)%  |
| Net income                 | 11,517             | 16,260     | (29.2)% | 6,441             | 10,324     | (37.6)% |
| Net margin (%) *           | 18.3%              | 25.6%      | (7.3)%  | 4.3%              | 7.6%       | (3.3)%  |
| Funds from operations *    | 12,787             | 10,225     | 25.1 %  | 28,171            | 22,803     | 23.5 %  |
| <i>Per Share Data (\$)</i> |                    |            |         |                   |            |         |
| Basic earnings             | 0.34               | 0.49       | (30.6)% | 0.19              | 0.31       | (38.7)% |
| Diluted earnings           | 0.34               | 0.49       | (30.6)% | 0.19              | 0.31       | (38.7)% |
| Funds from operations *    | 0.38               | 0.31       | 22.6 %  | 0.84              | 0.69       | 21.7 %  |

  

| As at (\$000s except as noted) | 30-Sept-17 | 31-Dec-16 | Change |
|--------------------------------|------------|-----------|--------|
| Shareholders' equity           | 980,648    | 994,721   | (1.4)% |
| Total assets                   | 1,918,805  | 1,891,988 | 1.4 %  |
| <i>Per Share Data (\$)</i>     |            |           |        |
| Book value *                   | 29.39      | 29.83     | (1.5)% |

### 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's consolidated financial statements and management's discussion and analysis for the three and nine months ended September 30, 2017, which can be found on the company's website at [www.Melcor.ca](http://www.Melcor.ca) or on SEDAR ([www.sedar.com](http://www.sedar.com)).

### About Melcor Developments Ltd.

Melcor is a diversified real estate development and asset management company that transforms real estate from raw land through to high-quality finished product in both residential and commercial built form. Melcor develops and manages mixed-use residential communities, business and industrial parks, office buildings, retail commercial centres and golf courses. Melcor owns a well diversified portfolio of assets in Alberta, Saskatchewan, British Columbia, Arizona and Colorado.

Melcor has been focused on real estate since 1923. The company has built over 100 communities across Western Canada and today manages 3.90 million sf in commercial real estate assets and 612 residential rental units. Melcor is committed to building communities that enrich quality of life - communities where people live, work, shop and play.

Melcor's headquarters are located in Edmonton, Alberta, with regional offices throughout Alberta and in Kelowna, British Columbia and Phoenix, Arizona. Melcor has been a public company since 1968 and trades on the Toronto Stock Exchange (TSX:MRD).

### **Forward Looking Statements**

In order to provide our investors with an understanding of our current results and future prospects, our public communications often include written or verbal forward-looking statements.

Forward-looking statements are disclosures regarding possible events, conditions, or results of operations that are based on assumptions about future economic conditions, courses of action and include future-oriented financial information.

This news release and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent Melcor's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Future-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2017 and beyond, future development plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook of our operations.

By their nature, forward-looking statements require assumptions and involve risks and uncertainties related to the business and general economic environment, many beyond our control. There is significant risk that the predictions, forecasts, valuations, conclusions or projections we make will not prove to be accurate and that our actual results will be materially different from targets, expectations, estimates or intentions expressed in forward-looking statements. We caution readers of this document not to place undue reliance on forward-looking statements. Assumptions about the performance of the Canadian and US economies and how this performance will affect Melcor's business are material factors we consider in determining our forward-looking statements. For additional information regarding material risks and assumptions, please see the discussion under Business Environment and Risk in our annual MD&A.

Readers should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Except as may be required by law, we do not undertake to update any forward-looking statement, whether written or oral, made by the company or on its behalf.

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