



Issued by & reply to:
FC PRIVATE EQUITY REALTY MANAGEMENT CORP.

September 15, 2020

ATTENTION: MS. JACKIE PEYNADO

AST Trust Company (Canada)
1 Toronto Street, Suite 1200
PO Box 4202, Station A
Toronto, ON
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ATTENTION: MR. NAZIM NATHOO

AST Trust Company (Canada)
1 Toronto Street, Suite 1200
PO Box 4202, Station A
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Dear Ms. Peynado and Mr. Nathoo:

RE: ARTIS REIT PREFERRED UNITS

FC Private Equity Realty Management Corp. ("**Firm Capital**"), through affiliated entities is an owner of Artis Real Estate Investment Trust ("**Artis**" or the "**REIT**") Trust Units (Common Units) and Preferred Units.

On September 8, 2020, Artis announced the Proposed Retail Portfolio Spinoff and Debt Reduction (the "**Transaction**"). Since the Transaction was announced, we have had multiple discussions with senior management of the REIT. Attached are copies of this correspondence.

We are writing this letter to you on behalf of our interests as a Preferred Unitholder, of which AST Financial is the transfer agent and custodian.

The interest of the Preferred Unitholders needs to be dealt with independently than those of the Common equity Unitholders.

CONFLICT OF INTEREST:

The law firm on this Transaction retained by the REIT is representing the interest of the common and preferred equity unitholders plus the Board of Trustees as it relates to management's request of the Board to approve the splitting up of the Trust.

The interest of the common and preferred equity unitholders is **NOT** aligned. The common equity unitholders receive securities in the new Retail REIT, and this entity will not have any Preferred Units issued and will see the Common Equity holders receive \$225 million of added security to protect their equity. The Preferred Unitholders are being left behind with \$225 million of less security.

Setting aside the loss of \$225 million of equity security, the mere fact of stripping out all the retail assets is a material change of business that should require the REIT to redeem the preferred units at PAR. Management and the Board is trying to circumvent that by having a vote to avoid the requirement to redeem the units at PAR. This alone is a conflict of interest.

Further, the Preferred Unitholders are being asked to return their current preferred unit certificates, for a temporary promissory note. The promissory note is then replaced with the issuance of new Preferred Units. That alone should warrant the redemption at PAR, as Preferred Unitholders should not be obligated to accept a promissory note.

The Preferred Unitholders need to have:

1. Independent representation by a law firm only representing the interests of the Preferred Unitholders;
2. A firm to provide a fairness opinion only for the interest of the Preferred Unitholders. Only after this is completed can the Board of Trustees make a proper recommendation; and
3. Since the Board of Trustees seems to be able to approve matters for all interested parties, the Preferred Unitholders (who are a form of debt security that has a rating agency rating) need an independent committee.

EROSION OF PREFERRED UNITHOLDERS EQUITY:

The Transaction moves approximately \$779 million of assets to Artis Retail REIT, which will have an estimated Net Asset Value of approximately \$360 million. All series of the Preferred Units have a face value of approximately \$303 million. Given that the Preferred Units rank ahead of the Common Trust Units, an erosion and transfer of the underlying equity has been proposed to take place without any consideration being provided to Preferred Unitholders. To put this in context, Common Trust Unitholders will receive consideration for the spinoff in the form of new Retail REIT Trust Units, but Preferred Unitholders are receiving zero from this entity.

Management has attempted to state that an upward mortgage refinance in the new Retail REIT will see \$125 million paid to the existing REIT, that \$125 million equity is already imbedded in the Preferred Unitholders security. Preferred Unitholders get nothing from this Transaction, they actually lose assets.

The erosion of equity is approximately \$235 million.

We cannot understand why Preferred Unitholders would vote for something that has nothing coming to them, and at the same time effectively losing approximately \$235 million of underlying equity below them?

When the Preferred Units were issued, investors bought them on the basis of being investors in a diversified REIT. The current retail portfolio has unencumbered assets that act as a safety buffer for Preferred Unitholders. The Transaction has those retail assets equity being transferred to a new Retail REIT without any consideration being paid to Preferred Unitholders, resulting in \$235 million in equity erosion that acted as protection for Preferred Unitholders.

The Board of Trustees had a fiduciary duty to make a recommendation to Preferred Unitholders on the Transaction as it relates to the interest of Preferred Unitholders and not just Trust Unitholders. In order for the Board of Trustees to make such a recommendation, they should have retained separate and distinct legal counsel and advisors for the Preferred Unitholders, otherwise there is an inherent conflict of interest. We cannot see how the Board of Trustees in good conscious recommended this Transaction as being in the best interests of Preferred Unitholders.

Independent legal counsel is required for the Preferred Unitholders, as it is apparent that Artis REIT's legal counsel is conflicted in providing an overall opinion that impacts different stakeholders such as Common Equity holders, Preferred Equity holders, Management and the Board of Trustees. That is why we are reaching out to you.

As you are the "gatekeepers" for the interests of the Preferred Unitholders, it is incumbent on you as transfer agent to initiate this to occur, and advise the company you are going to establish a committee of Preferred stakeholders.

THE ISSUANCE OF A NEW CERTIFICATE TRIGGERS A REDEMPTION:

As described in Slide 5 of the REITs investor presentation entitled: "***Artis Retail Portfolio Spin-Off September 8, 2020***" describe the issuance of a new Preferred Unit being issued to existing Preferred Unitholders. Our comments and unanswered questions are as follows:

1. If the Preferred Units are not leaving the existing REIT, why issue new Preferred Unit certificates to existing unitholders? Senior management mentioned on our conference call that it was for income tax reasons, that requires all beneficial owners, that includes the Preferred Unitholders to approve the transaction. That said, this is a material event that should require the preferred units to be redeemed at PAR.

2. In terms of the actual mechanics to the Transaction for the purposes of Income Tax, the actual steps as part of the issuance of a new certificate (as legal counsel outlined on the conference call) require that (and as we understand): (i) Preferred Unitholders units being redeemed, (ii) a Promissory Note is issued temporarily pending approval of the Plan of Arrangement; then (iii) the issuance of new Preferred Units. This results in a Transaction that has the Preferred Units being redeemed and such redemption should be at par. Preferred Unitholders should **NOT** be required to accept a Promissory Note, rather they should have the right to reject that step and be redeemed at PAR.

3. Preferred Unitholders are also not receiving any consideration from the new retail REIT. If so, why issue a new Preferred Unit? The REIT is selling assets to a new Retail REIT and paying Common Trust Units to existing Common Trust Unitholders, but not the Preferred Unitholders. **THE PREFERRED ARE GETTING NOTHING BUT ARE BEING ASKED TO VOTE ON THIS?**

In our opinion, the issuance of these new Preferred Units is a redemption trigger that would require the Preferred Units to be redeemed at par. Further by cancelling and then reissuing Preferred Unit certificates to unitholders, a redemption of existing Preferred Unitholders has occurred.

PREFERRED UNITS ARE A FORM OF DEBENTURES:

The Preferred Units are a form of debenture. For all intents and purposes, the Preferred Units are a form of credit instrument. That is why, in part, they are rated by a bond rating agency. As you are aware, the ranking of the Preferred Units is behind the current Debentures and ahead of Common Trust Units. The removal of 1/3 of the assets of the REIT, assets that form security for the Preferred Unitholders, has a negative impact on the risk profile of the Preferred Units. This alone is a material security “stripping” event that should trigger a redemption of the Preferred Units.

EXISTING PREFERRED UNIT INDENTURE STATES THIS A REDEMPTION:

Under the terms of your existing preferred units, specifically the “***Certificate of Preferred Unit Terms Approved by the Trustees effective August 2, 2012***” under Section 3 (“***Rights on Termination or Liquidation***”), it states the following:

“In the event of the termination, liquidation, dissolution or winding-up of the Trust, whether voluntary or involuntary, or any other distribution of assets of the Trust among its unitholders for the purpose of winding-up its affairs, the Holders shall be entitled to receive \$25.00 per Series A Preferred Unit, together with all Series A Distributions accrued and unpaid up to but excluding the date of payment or distribution (less any tax required to be deducted or withheld by the Trust), before any amounts shall be paid or any assets of the Trust distributed to the holders of any Equity Interests ranking junior as to capital to the Series A Preferred Units. Upon payment of such amounts, the Holders shall not be entitled to share in any further distribution of the assets of the Trust.”

The REIT is distributing its assets with the Preferred Unitholders receiving no consideration for the distribution.

By requesting the Preferred Unitholders to accept a temporary promissory note, than new Preferred Units, the REIT is winding up its affairs and issuing new securities.

With the spinoff of the retail real estate to a new Retail REIT, it is our view that a liquidation event has occurred as the REIT no longer is in the business of retail, rather just office and industrial assets. It is our view that the erosion of \$235 million equity value under the Preferred Units could be deemed to be a partial 'winding up' of Artis REIT and trigger a redemption at par of the Preferred Units?

Further, Preferred Unitholders should not remain investors in an office and industrial REIT when they were promised the diversification of retail as well. In our opinion, a redemption has occurred, and Preferred Unitholders should receive \$25.00 per Preferred Unit as outlined above.

As we stated earlier, the Board of Trustees of Artis had a fiduciary duty to make a recommendation to Preferred Unitholders on the Transaction as it relates to the interest of the Preferred Unitholders, not just Trust Unitholders. In order for the Board of Trustees to make such a recommendation, they should have retained separate and distinct legal counsel and advisors for the Preferred Unitholders, otherwise there is an inherent conflict of interest. In light of the fact that the Preferred Unitholders are being asked to vote on a Transaction that has: (i) nothing being provided to them in the form of consideration; (ii) losing approximately \$235 million in the form of eroded equity; and (iii) seeing a restructured Artis REIT having no retail real estate that produced income to protect Preferred Unitholders distributions, we cannot see how the Board of Trustees can recommend this Transaction as being in the best interests of Preferred Unitholders.

Independent legal counsel is required for the Preferred Unitholders, as it is apparent that Artist REIT legal counsel is conflicted in providing an overall opinion that impacts different stakeholders such as Common Equity holders, Preferred Equity holders, Management and the Board of Trustees. As such, we are contacting you as transfer agent for the Preferred Unit to undertake the following:

REQUEST OF THE TRANSFER AGENT:

As the Transfer Agent and custodian, we are requesting that:

1. An independent committee established of the Preferred Unitholders to review this Transaction, of which we are happy to participate and be a part of and we would include and solicit a committee of other preferred unitholders;
2. The independent committee retain independent legal counsel to protect the interest of the Preferred unitholders; and

3. You as Transfer Agent advise all Preferred Unitholders of these matters.

As Transfer agent you have a fiduciary obligation to the Preferred unitholders. We have brought this matter to your attention. We are available to discuss it further and to participate in a special committee of the Preferred Unitholders.

May we please hear from you in an expedited time frame.

Yours truly,

FC PRIVATE EQUITY REALTY MANAGEMENT CORP.

PER:



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Enclosures:

CC:

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