



**FC PRIVATE EQUITY REALTY MANAGEMENT CORP.**

**FC PRIVATE EQUITY REALTY MANAGEMENT CORP. DISCLOSES CONVERSATIONS WITH  
MELCOR REIT BOARD OF TRUSTEES  
IN ORDER TO UNLOCK VALUE FOR UNITHOLDERS & CALLS FOR MELCOR DEVELOPMENTS  
LTD. (“MDL”) TO ACQUIRE THE MINORITY INTEREST IN THE REIT**

Toronto, Ontario, November 23, 2020. FC Private Equity Realty Management Corp. (“**Firm Capital**”), through affiliated entities is an owner of Melcor Real Estate Investment Trust (“**Melcor**” or the “**REIT**”) (TSX : MR.UN) Trust Units and Convertible Debentures.

We are issuing the press release in order to communicate with other minority unitholders of Melcor to address the ongoing depressed price of the trust units as is discussed herein, and call on all minority unitholders to support our proposed value creation plan. We encourage unitholders to voice their support to the board.

Firm Capital has been engaged with both the Board of Trustees and Management of Melcor since October 2019. Firm Capital has tabled numerous concerns to the board that have been largely unanswered. This includes, but is not limited to, a dilutive private placement offered solely and unfairly to the majority unitholder Melcor Developments Ltd. and inquiries on the rationale for a 47% cut to unitholder distributions.

Below is our letter to the Board of Trustees dated November 4<sup>th</sup> 2020, in which we propose that MDL acquire the REIT for \$8.70 per unit. We have yet to receive a response to this letter.

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November 4, 2020

**ATTENTION: MR. RALPH B. YOUNG**

Chairman of The Board of Trustees  
Melcor Real Estate Investment Trust  
900, 10310 Jasper Avenue NW  
Edmonton, AB  
T5J 1Y8

Dear Mr. Young:

**RE: UNLOCKING UNITHOLDER VALUE IN MELCOR REIT**

As you are aware from our prior correspondence, FC Private Equity Realty Management Corp. (“**Firm Capital**”), through affiliated entities is an owner of Melcor Real Estate Investment Trust (“**Melcor**” or the “**REIT**”) Trust Units.

Attached is a deck of our correspondence to date.

Independent Trustees have a fiduciary duty to address prolonged periods of depressed valuations that impact and repress minority unitholders. Melcor Developments Ltd. (“**MDL**”), as a 55% owner of Melcor, is not oppressed as they carry Melcor on its balance sheet at the Net Asset Value (“**NAV**”), and further charge asset management fees to Melcor at the gross book value of assets, not based on equity at the depressed unit trading price.

Independent Melcor Trustees need to act in the best interest of and acknowledge their duty to minority unitholders, otherwise they are personally liable for the oppression actions committed against minority unitholders.

If an oppression action was brought against MDL, MDL would be required to either purchase minority unitholders equity at fair market value or have the business sold accordingly.

The attached slide outlines the impact of the oppressive actions towards minority Unitholders as follows:

1. Since 2013, the Units have traded year after year at a discount to NAV. The Units today trade at a 60% discount to the IPO price;
2. Since 2013, NAV has decreased year after year (other than 2014 remained flat). Real estate valuations are supposed to increase year after year;
3. Since the 2013 IPO there has never been a distribution increase and during 2020 saw a 47% reduction; meanwhile
4. Since 2013, related party management fees have gone up each year.

Absolutely nothing good has happened for Unitholders since the IPO in 2013.

### **SIX YEARS OF UNDER IPO TRADING PRICE & DISTRIBUTION CUTS:**

As significant unitholders we are disappointed with the consistent disconnect between the trading price of Melcor Trust Units and NAV. Prior to COVID-19 events, other than for a short period in 2014, the trust units have always traded at a discount to the IPO price of \$10.00 per unit. The REIT’s trust units are currently trading at \$3.97 per Trust Unit, which is a staggering 57% discount to the recently reported IFRS NAV of \$9.18 per Trust Unit. It is also important to note that NAV per unit was recently revalued and written down ~15% from \$10.83 to \$9.18 per unit.

Since the spin off from Melcor Developments and the IPO of Melcor in 2013 at \$10.00 per Trust Unit, the units of the REIT have declined approximately 60% and the distribution per unit has been cut approximately 47%. Combined with a lack of recent acquisition activity and the inability to raise equity, it is evident that in its current state Melcor receives no benefit from being a publicly traded entity. It is clear minority unitholders are being oppressed.

Demonstrated by its current valuation it is apparent that there is no investor appetite for a small cap, diversified western Canadian REIT with a majority unitholder who has not been oppressed by the unit trading price as they carry the investment at NAV and charge fees based on gross book value.

The REIT is now unable to raise equity in the capital markets, meaning business is closed.

**PROPOSED VALUE CREATION OPTION:**

The Board of Trustees are obligated to find a way to maximize value for all Unitholders. Failure to do so is an oppressive action towards the minority unitholders.

We believe there is only one solution to the current problem. MDL must repurchase the 45% minority interest in the REIT and regain full ownership. MDL is already carrying the other 55% at NAV, so it has accepted this valuation.

The current float of the REIT is approximately 13 million trust units. As such, we suggest that MDL make an offer to purchase the REIT at a price per unit in the range of 95% of IFRS NAV of \$9.18 per Trust Unit. This would equate to a takeout price of \$8.70 per unit for the minority interest, for total consideration of approximately \$113 million. This would be a 132% increase over the current trading price and would be a successful outcome for both yourselves and long-suffering minority unitholders.

This would allow MDL to buy back the Melcor assets at a discounted valuation and at a discount to the IFRS fair value of the assets currently shown on MDL's balance sheet. We would also suggest that the outstanding Convertible Debentures be assumed by MDL, as they are listed, and those debentures would be better secured by a larger asset-based entity.

We are formally requesting a committee of independent trustees be formed to address these matters.

To our knowledge and based on disclosed ownerships, Firm Capital, through affiliated entities, is the largest minority unitholder of the REIT and would vote in favor of the proposed takeout transaction.

Please ensure that all members of your board of trustees receive a copy of this letter.  
May we please get a written response by November 9, 2020.

Yours truly,

**FC PRIVATE EQUITY REALTY MANAGEMENT CORP.**

**PER:**

***Eli Dadouch***

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Eli Dadouch  
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*Disclaimer;*

*If you feel your response should be in a public form for all unitholders to see, then issue a press release, as you should expect all our correspondence to be publicly released, including your replies.*

Attachments:

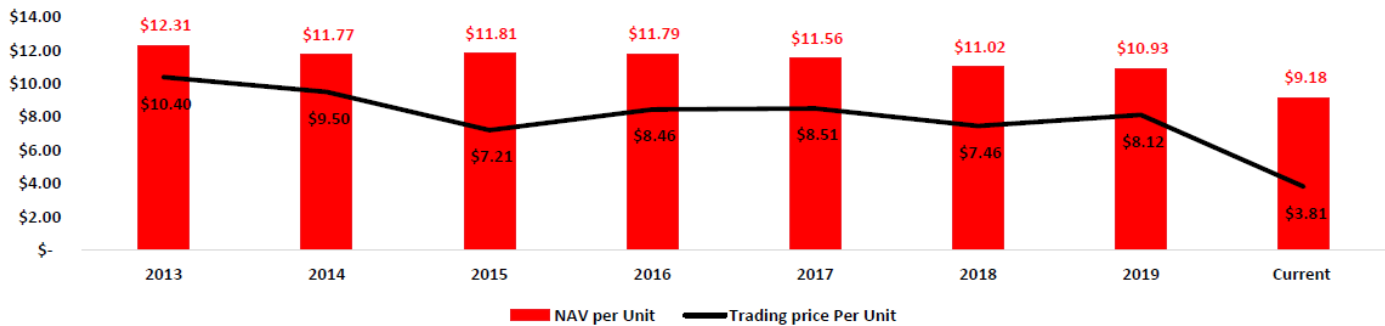
1. History of Poor Performance and Related Party Fees



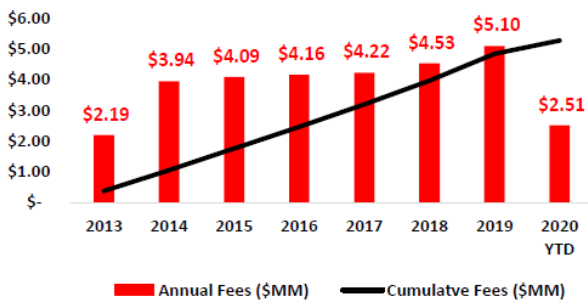
## ● History of Poor Performance and Related Party Fees

### Has Consistently Traded at a Discount to a Declining NAV Since IPO

Units have never traded to NAV per unit. Trading price has declined 62% to \$3.81 from \$10.00 IPO in 2013. NAV per unit has declined 25% since December 31, 2013.

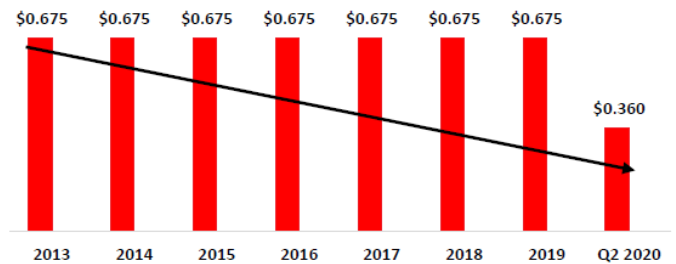


### Related Party Management Fees of \$31MM



### 47% Distribution Cut Since IPO

Distribution Was Never Increased since IPO



DISCIPLINED INVESTING • CAPITAL PRESERVATION

### ABOUT FC PRIVATE EQUITY REALTY MANAGEMENT CORP.

FC Private Equity Realty Management Corp. is a real estate private equity investment firm in Toronto, Canada.

For further information, please contact:

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