

Appendix 3



Joe Casali
Director
Real Estate Services

Facilities & Real Estate
Metro Hall, 2nd Floor
55 John Street
Toronto, Ontario M5V 3C8

Reply to:
Karen Kwong, AACI
Tel: 416-392-5840
Fax: 416-392-1880
Email: kkwong@toronto.ca

BY FAX AND MAIL (fax. no. 416-248-6209)

January 30, 2007

Downing Street Holdings (1011 Dufferin Street) Inc.
426 Bloor Street East
Suite 100
Toronto, ON M4W 3R5

Attention: Anthony Alberga
President

Dear Sir:

RE: LAND LEASE RENEWAL PROPOSAL - AMENDED
1011 DUFFERIN STREET
PROPERTY FILE NO.: DUF.1011

This letter relates to a lease dated as of the 31st day of January, 1973 as amended by amending agreements dated the 22nd day of September, 1976 and the 15th day of May, 1978 (collectively, the "Lease"). The Lease, as a result of certain assignments and restructurings, is now between your company as Lessee and the City of Toronto as Lessor. You have exercised the Lessee's First Renewal Privilege pursuant to Section 8 of the Lease. We exchanged letters dated December 12, 2006 and December 18, 2006 setting out the terms and conditions of the renewal term of the Lease. However, as a result of discussions held and issues raised between the parties subsequently, and letter and reply exchanged on January 29, 2007 and January 30, 2007, I am writing to set out revised terms and conditions for the Lease renewal term.

In this regard, I am prepared to recommend to the relevant City authorities a renewal of the Lease based on the following terms and conditions:

1. Lease term:

33 years commencing January 1, 2006 and expiring December 31, 2038;

2. Annual Basic Rent:

Seventy-five Thousand Dollars (\$75,000.00) per annum, net, plus GST and all applicable taxes, assessments and costs to the demised lands, payable in advance on the first day of January in each year. Notwithstanding the current requirement in the Lease to pay Rent on an annual basis, in each year of the renewal term the tenant shall have the option to

pay the annual basic rent on a monthly basis on the first day of each month in consecutive equal monthly instalments of \$6,600.00 per month, plus GST;

3. Increase in Gross Floor Area:

The tenant agrees that the gross floor area of the building developed on the demised lands will not be increased to more than the 28,972 square feet of density as existing. Should the tenant at any time during the term increase the gross floor area or building area, the annual basic rent will be increased proportionately. By way of example, if the gross floor area were to increase by five percent (5%) to 30,420 square feet, the annual basic rent (assuming the annual basic rent is \$75,000) would increase by 5% to \$78,750. The increase in the basic rent would take effect upon substantial completion of the construction contract which led to the increase in the area. If the tenant is paying rent in monthly instalments, the annual basic rent and monthly instalments would increase in the same manner.

4. TTC Bus Waiting Area Improvements:

The tenant acknowledges that the TTC is planning to erect a canopy to protect TTC passengers waiting for buses on the sidewalk along Dufferin Street abutting the demised lands. The design of the canopy has not yet been finalized, but the work is expected to be undertaken within the next year or so. The TTC anticipates that the canopy will be designed either to be supported by the tenant's building or self-supporting but attached to the building for drainage purposes. The tenant agrees to work cooperatively with the TTC in the design, construction and installation of the canopy and agrees that it shall not impose any charge on the City or the TTC related to the integration of the canopy with the tenant's building, provided however that all construction affecting the building shall have the tenant's prior approval, and all costs related to the design, erection and installation of the canopy shall be at the expense of the TTC. In the event of a dispute:

- (a) the TTC and Lessee shall mutually agree on an architect, acceptable to both parties, to act as an arbitrator on any issues relating to the design of the proposed canopy. The parties agree that the canopy design will respect the visibility of tenant signage, and access to and egress from the tenant's premises; or
- (b) the TTC may elect to redesign the canopy as a stand-alone structure on adjacent City property.

5. TTC Future Requirements:

The Tenant acknowledges that the building upon the Demised Land is encroaching into the TTC easement area including Parts 3, 6 and 9 on drawing C.A.R. Plan 51 as shown on a print of survey prepared by Wheeler Associates and attached to the second lease amending agreement. In consideration of the City and the TTC having permitted and continuing to permit the said encroachment:

- (a) the tenant agrees to adopt the same spirit of cooperation with the TTC if, during the remainder of term or any renewal thereof, the TTC undertakes capital projects which may affect the demised lands;

- (b) it is understood and agreed that the foregoing is a statement of principle and will not prohibit the tenant from raising valid concerns whenever the TTC's capital projects may interfere with the use of any space leased by the lessee to its tenants, and to the on-going use and enjoyment of the building, parking or access by the lessee as provided by the lease; and
 - (c) the tenant agrees that if a TTC project requires space within the demised lands which are not occupied by the tenant's building, the tenant will permit such construction to take place, including if necessary granting an easement over the demised lands for the works to be constructed, subject to the considerations of item 5(b) above, and without charge to the City or the TTC.
6. Except for the TTC requirements noted above, all other requirements of Toronto Transit Commission that may arise during the remainder of the term or any renewal thereof will be addressed by separate negotiation;
 7. All other terms and conditions to remain similar to that of the Lease. The parties acknowledge that the tenant has a Second Renewal Privilege upon the expiry of the current renewal term, and there shall be no further renewal privilege thereafter. The parties agree that the City shall prepare a lease renewal agreement incorporating the provisions of this proposal letter;
 8. The Chief Corporate Officer or designate shall administer and manage the Lease Agreement including provision of any consents, approvals, waivers, notices and notices termination, provided that the Chief Corporate Officer may, at any time, refer consideration of such matter (including their content) to City Council for its determination and direction;
 9. Notwithstanding any clause contained or not contained in this proposal, the Lease Renewal Agreement must be in a form and content acceptable to the Solicitors for both parties, and subject to the provision of Paragraph 7;
 10. The proposal shall be subject to the approval of the relevant City authorities and City Council.

The Tenant agrees to pay City Legal Department an administration fee of \$400.00, plus GST, for completion of the legal document.

If the above terms and conditions are acceptable to your corporation, please indicate so by signing and returning one (1) copy of this letter to me by mail and fax (fax no. 416-392-1880) as soon as possible in order for me to seek approval. Furthermore, we acknowledge the receipt of a cheque in the amount of \$75,000, which will cover the rent due for 2006. It is acknowledged that the lessee has paid land rent for the year 2006 in the amount of \$11,000, and this shall be credited to rent due for 2007 and appropriate accounting will be made to reflect the net monthly payment due by the lessee.

This proposal shall remain open for acceptance until February 2, 2007, failing which it shall be null and void. Upon acceptance, any understanding arising from our exchange of letters dated

December 12, 2006, December 18, 2006, January 30, 2007 and your reply of January 31, 2007, shall be null and void, and this letter shall form the entire basis of our agreement.

Your immediate reply would be much appreciated.

Yours truly,


Raymond Kessler
Manager, Leasing & Site Management

cc. Barbara A. Cappell, Legal Department
Graham Tulett, TTC

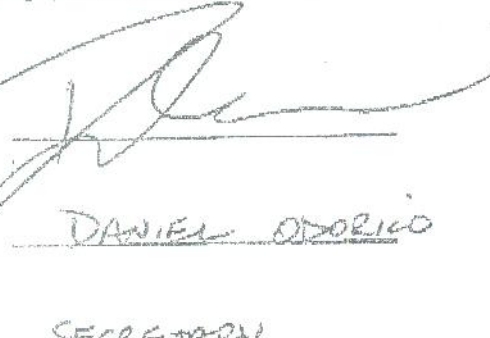
RK/BAC/KK

AGREED TO AND ACCEPTED on the 2nd day of February, 2007.

Downing Street Holding (1011 Dufferin Street) Inc.
Per:

Signature:

Name:


DANIEL ODORICO

Title:

SECRETARY

I have the authority to make this a binding and legal agreement.