

Appendix "A"

Letter of Intent

September 25, 2009

HKHotels LLC
c/o Henry Kallan
Hotel Elysee
60 East 54th Street
New York, New York 10036

Dear Mr. Kallan:

Re: Proposed Development of Hotel at Exhibition Place (the "Project")

Following selection of your response to Exhibition Place RFP No. 9155-07-7166 (the "**Response**") as the preferred proposal by the Board of Governors of Exhibition Place (the "**Board**"), we entered into a letter of intent dated July 9, 2008 as amended by the amendment thereto dated April 17, 2009 (as so amended, the "**LOI**") to enter into the proposed land lease and ancillary agreements in furtherance of the steps required to bring the proposed hotel project (the "**Project**") to fruition. Both parties have been proceeding with plans for the proposed hotel, and as the term of the LOI is coming to an end, we are now ready to proceed to the next step. We propose that, upon your acceptance of the matters set forth in this letter, the following terms and conditions will form a binding agreement to lease on and subject to the terms and conditions set out below (the "**Letter Agreement**"), between HKHotels LLC ("**HKH**") and the Board.

1. **Concept:** The initial phase of the Project ("**Phase 1**") shall include a full service hotel of approximately 320 but not less than 200 guest rooms with resort-style amenities and related ancillary uses and underground parking for approximately 400 cars (collectively, the "**Hotel**"). The Hotel shall be developed to a quality and standard consistent with full service hotels of comparable size and quality in Toronto's business districts. The Hotel shall be built in accordance with the Toronto Green Standard for New Construction and HKH shall use commercially reasonable best efforts to obtain a LEED Silver rating. In addition to the guestrooms, the Hotel may include ancillary uses compatible with a full service resort-style hotel of comparable size and quality. For further clarity, such other uses and services may include one or more restaurants, licensed lounge, spa and/or health club, swimming pool, tennis courts, room service, business centre, valet parking and compatible retail facilities, provided however that as a minimum, the Hotel shall include a restaurant, licensed lounge, room service and a business centre. In addition, the Hotel may include meeting rooms comprising approximately 25,000 square feet as contemplated in the Response. The parties acknowledge and agree that the number of guest rooms and parking spaces and the size and configuration of meeting room areas as originally envisioned in the Response are subject to change due to site conditions and other design and market considerations. The final number of guest rooms and parking spaces and size and configuration of meeting room areas for Phase 1 will be determined

in the course of the planning and development process. The Project may or may not include a tunnel to connect to the Allstream Centre and/or a tunnel to connect to the Direct Energy Centre. In developing the plans for the Hotel, HKH will have due regard for the hazards posed to migratory birds, and will consult with FLAP (the Fatal Light Awareness Program) to incorporate mitigating measures to reduce bird fatalities. The Hotel will be designed in accordance with City of Toronto accessibility standards, and at least one (1) room per guest floor of the Hotel will be equipped for handicapped guests. In staffing the Hotel when it opens for business, HKH will endeavour to provide appropriate job opportunities to duly qualified members of the communities neighbouring Exhibition Place.

2. **Site:** The lands comprising Exhibition Place are owned by the City of Toronto (the “**City**”) and have been placed under the management of the Board. Phase 1 of the Project will be developed on the parcel of land the approximate boundaries of which being shown outlined in blue on the sketch attached as Schedule “A” (the “**Phase 1 Lands**”) located within the lands (the “**Project Lands**”) south of Princes’ Boulevard and immediately west of Newfoundland Drive shown outlined in red on the sketch attached as Schedule “A”. The second phase of the Project (“**Phase 2**”) may be developed on the portion of the Project Lands remaining after the boundaries of the Phase 1 Lands are finally determined (the “**Phase 2 Option Lands**”). The parties acknowledge and agree that the exact location of the Phase 1 Lands within the Project Lands will be subject to reasonable modification in the course of the detailed design and site planning in connection with the Development Plan approved by the Board and the City as contemplated in paragraph 15.
3. **Grant of Lease and Option:** In connection with Phase 1, the Board and the City will grant a ground lease (the “**Lease**”) for the Phase 1 Lands (the “**Leased Premises**”) to a limited liability company, limited partnership or corporation (the “**Tenant**”) owned or controlled, directly or indirectly, by Henry Kallan. HKH will be engaged to operate the Hotel in a manner and to a standard consistent with other HKH hotels as described in the Response. Concurrently with the entering into of the Lease, the Board and the City will grant to the Tenant an option to lease the Phase 2 Option Lands (the “**Phase 2 Option**”) upon and subject to the terms and condition set out in paragraph 11.
4. **Initial Term of Lease and Renewal Terms:** The initial term of the Lease (“**Initial Term**”) shall be for a period of forty-nine (49) years commencing on the date construction of the Project commences which for these purposes means the earlier to occur of: (i) the date on which the excavation of the Phase 1 Lands or the driving of piles in accordance with the foundation permit issued to the Tenant by the City for the purposes of constructing the Hotel, is commenced; or (ii) May 1, 2011.

There shall be two renewal terms of the Lease for twenty-five years each, exercisable at the option of the Tenant. Minimum Rent and Percentage Rent during the renewal terms shall be the fair market rent for the Leased Premises, assuming the use of the Leased

Premises as a hotel and ancillary uses (and/or any other uses then permitted pursuant to amendments, if any, to the Lease).

[Criteria to consider when calculating Minimum Rent and Percentage Rent outlined in Confidential Attachment]

Any dispute regarding the Minimum Rent and/or Percentage Rent for a renewal period shall be determined by arbitration conducted in accordance with the *Arbitration Act, 1991* (Ontario).

5. **Minimum Rent:** See Confidential Attachment to this report

6. **Percentage Rent:** See Confidential Attachment to this report

The Tenant will provide accurate monthly reports and audited financial statements to the Board annually prepared by an audit firm with at least five partners for the purpose of confirming the calculation of the Percentage Rent. The Board shall have the right to inspect the Tenant's books and records pertaining to Gross Room Revenues on reasonable notice at any time throughout the Initial Term and any renewals thereof, and upon reasonable notice to conduct an audit if the Board deems it appropriate. If the results of the audit reveal that the Tenant has understated Gross Room Revenues by more than 3%, then in addition to any other remedies the Board might have, the Tenant shall pay all of the Board's related auditing expenses.

7. **Definitions of Gross Room Revenues:** The term "**Gross Room Revenues**" as used in this Letter Agreement shall mean all revenues of every kind (whether in cash or on credit) resulting from guest room charges attributable to the rental of sleeping accommodation in the Hotel to guests and tenants (after deducting from said proceeds all necessary expenses incurred in the adjustment or collection thereof). The term Gross Room Revenues shall not include or there shall be deducted therefrom, as the case may be: (i) revenues received from Hotel guests, tenants, lessees, licensees and concessionaires and other persons occupying space at the Hotel not attributable to the rental of sleeping accommodations including revenues received from the sale of food, beverages or other goods or the rendering of services to Hotel guests and visitors, the proceeds of use or occupancy insurance actually received by the Hotel with respect to the operations of the Hotel and all parking revenue (after deducting from said proceeds all necessary expenses incurred in the adjustment or collection thereof); (ii) refunds granted to transient guests or other persons, to the extent that such receipts were previously included in Gross Revenues; (iii) gross receipts of any lessee, licensee or concessionaire; (iv) Goods and Services tax, Provincial retail sales taxes, levies or other direct taxes imposed upon sales collected from the customers and remitted to the applicable governmental authority as such taxes; and (v) such other deductions as the parties, acting reasonably, agree upon in the course of negotiating the final terms of the Lease.

8. **Deposit:** HKH has provided a Deposit in the amount of \$25,000.00 with its response to the RFP. This Deposit shall be held by the Board, and shall be refundable or subject to

forfeiture as set out in paragraph 29(b). The Deposit shall be held by the Board, without interest, and otherwise applied to the first Rent due under the Lease.

9. **Use of Leased Premises and Restrictions:** The Tenant shall construct the Hotel on the Leased Premises in a diligent, timely and efficient manner. Upon completion of construction, the Tenant shall continuously operate the Hotel as set out in paragraph 1 of this Letter Agreement. It is understood and agreed that the Tenant may close a certain portion of the rooms periodically during the Term for renovations and replacement of FF&E, and provided that the number of rooms closed at any one time is in accordance with hospitality industry standards and affect not more than one-third of the guest rooms at any one time, such closures shall not be considered breaches of the covenant to operate continuously. It is also understood and agreed that if the Term is renewed, there could be a need for the Tenant to close the Hotel completely in order to undertake extensive upgrades and renovation, and the parties agree to act reasonably to negotiate the terms and conditions related to any such closure if and when it should arise.

The Leased Premises shall not be used for any of the following purposes:

- a permanent themed dinner theatre
- professional live hockey, soccer or motor racing events
- a permanent liquor licensed venue/night club solely for the purpose of providing live and recorded musical entertainment for standing room crowd capacities of greater than 500 persons but less than 2999 persons
- a ticketed concert venue, promoted to the general public, for over 500 seats
- casino or gaming facility

In addition to the guestrooms, the Hotel shall include a full service restaurant/ licensed lounge, room service and meeting rooms and/or a business centre, and may include ancillary uses compatible with a full service hotel. More specifically, the Hotel may include meeting rooms and/or business centre facilities comprising approximately 25,000 square feet as contemplated in the Response, the final size and configuration of which being subject to change due to site conditions and other design or market considerations. The Tenant will not be bound by and the operations of the Hotel will not be subject to any restrictions or exclusivity arrangements made by the Board with respect to Exhibition Place that are not explicitly provided for in this Letter Agreement.

During the Initial Term, the Hotel will not be used to host any trade or consumer show which had been presented at Exhibition Place pursuant to a contract with the Board in the preceding three-year period provided however, that the Board may, at its sole discretion, waive this limitation on request of the Tenant. In addition, the Board will, as a first priority, refer trade and consumer show clients to the Tenant if the Board has no available space for the dates required.

The Board will have the right, on terms to be negotiated by the parties, each acting reasonably, to book the meeting rooms and/or business centre facilities at a preferred rate, the details of which to be settled at the time of the entering into of the Lease.

Provided further, however, that under no circumstances shall the Tenant be permitted to include any form of residential accommodation (other than for general manager, resident manager and resident chief engineer, if such residency is desirable in HKH's reasonable judgment for the due performance of such duties) other than commercial extended-stay transient accommodation. For the purpose of this Letter Agreement and the Lease, extended-stay transient accommodation includes rental of guest rooms or suites on the following basis:

Rooms and suites may be rented fully furnished for a term ranging from one day to a maximum of 28 days

In exceptional circumstances, a reservation for a stay in excess of 28 days will be permitted, with the prior approval of the Hotel's general manager

Services provided shall include, at a minimum, weekly housekeeping and linen service, central telephone service, front desk check in/check out service.

The hotel shall continue to be marketed as a commercial lodging facility.

Nothing in this paragraph 9 will restrict or prohibit HKH or the Tenant from expressing an interest at some time in the future in developing or operating a casino at Exhibition Place or seeking a license to operate gaming facilities at the Hotel or elsewhere at Exhibition Place as a business that is separate and distinct from the business required to be operated under the Lease, under a new, separate and distinct lease, should the Board choose to entertain such uses for the grounds or invite such expression of interest. HKH acknowledges the Board is not obliged to invite such an expression of interest. In responding to any such invitation to express an interest, neither HKH nor the Tenant will have any rights under the Lease and will be given no special or preferential treatment. Rather, HKH or the Tenant, as the case may be, shall be required to comply with all of the terms and conditions of the request for expressions of interest, RFP, or like document, as would any other entity or person wishing to express an interest in developing or operating a casino or other gaming facilities at Exhibition Place.

If, at any time during the term of the Lease but following the opening of the Hotel, the Tenant determines, on the basis of sound commercial analysis relating to the hospitality industry, that the Hotel should be restructured or the premises reconfigured to add or delete services or uses associated with the Hotel, including changes which might result in the Hotel no longer being described as "full service", the Tenant may request that the Board consent to changes to the uses permitted which consent shall not be unreasonably withheld, provided that the Tenant submits with any such request sufficient information to support the rationale for the change (including financial projections to support the requested change) and provided the Hotel shall, following any such change, continue to be of a quality appropriate to the location.

10. **Stanley Barracks:** HKH acknowledges and the Lease will provide that the Stanley Barracks and its immediate surrounding area will be included in the Leased Premises, and will be developed and used by the Tenant for purposes not inconsistent with the standards and quality of the Hotel (the "**Stanley Barracks Uses**") which may include office uses.

The Stanley Barracks Uses will be proposed by HKH, acting reasonably, in the course of and as part of the Development Plan and will be subject to the prior approval of the Board, which approval will not be unreasonably withheld. The Tenant shall have up to five (5) years from the Rent Commencement Date to complete any alterations and/or improvements necessary to incorporate the Stanley Barracks into the operation of the Hotel. HKH also acknowledges that the Stanley Barracks has historical significance and that any alterations and/or improvements to the building and surrounding area will be subject to additional review on the basis of their impact on the historical elements.

It is understood by the parties that the block of lands directly north of the Stanley Barracks building to Princes' Boulevard will be preserved as open space so as not to impair the visibility of the structures on the Stanley Barracks lands to Princes' Boulevard during the Initial Term of the Lease and used for the purposes such as, but not limited to, public assembly, event use or vehicular parking.

11. **Option:** Concurrently with the execution of the Lease, the Board and the City will grant the Phase 2 Option to the Tenant which shall provide that if the Tenant is not in material default of the Lease, at any time during the first ten (10) years following the Rent Commencement Date, the Tenant shall have the option to lease all or from time to time any portion of the Phase 2 Option Lands in order to expand the Hotel, including ancillary uses as stipulated herein. Provided however, that if the Tenant receives a return of at least fifteen percent (15%) per annum on all costs incurred in connection with the development of the Hotel on the Leased Premises in any two (2) consecutive calendar years following the opening of the Hotel, then the Phase 2 Option shall terminate unless the Tenant exercises same within the next succeeding calendar year. Each notice exercising such option shall be accompanied by a concept plan which shall outline the proposed location and size of the applicable portion of the Phase 2 Option Lands, taking into consideration the final configuration and use of the Phase 1 Lands including the Stanley Barracks' Lands and any City of Toronto planning objectives for Exhibition Place. The concept plan shall be subject to review by the Board. The design and specifications of all new construction, and any material alterations to existing structures, affecting the Phase 2 Option Lands, shall, if materially different from the Hotel as initially constructed, be subject to the prior approval of the Board which shall not be unreasonably withheld, provided that if the Board does not give its approval within a period of three (3) months from its submission, the Tenant may withdraw its notice of exercise of option, without prejudice to its right to submit a new notice exercising such option at a later date. It is understood and agreed that until such time as the Tenant enters into a lease for all or any portion the Phase 2 Option Lands, the remaining Phase 2 Option Lands which are not subject to a lease with the Tenant (or any affiliate thereof) shall remain under the control of the Board, and the Board may enter into agreements for use of such Phase 2 Option Lands with third parties, provided that the use to be made of the Phase 2 Option Lands is not inconsistent with the standards and quality of the Hotel and does not interfere with or detrimentally affect the operations of the Hotel, and further provided that any such agreement is subordinate to HKH's option rights and for a term which is not inconsistent with and would not interfere with the Tenant's option rights

described herein. Minimum Rent and Percentage Rent for the Phase 2 Option Lands shall be in addition to, Minimum Rent and Percentage Rent for the Leased Premises. Minimum Rent for the Phase 2 Option Lands shall be the same as the Minimum Rent for the Leased Premises (assuming that Tenant exercises the option for all the Phase 2 Option Lands; otherwise the Minimum Rent for the Phase 2 Option Lands shall be pro-rated). Percentage Rent for the Phase 2 Option Lands shall be calculated in the same manner as Percentage Rent for the Leased Premises. If the Tenant exercises an option to lease Phase 2 Option Lands, either the Lease will be amended to include such Phase 2 Option Lands in the definition of the Leased Premises for the then residue of the Term of the Lease (including renewal terms), or, at the option of the Tenant, the Board and the City will enter into a new ground lease for such Phase 2 Option Lands with the Tenant or an affiliate of the Tenant which shall be on the same terms and conditions, including the termination date and all renewal options as the Lease. To the extent that the Tenant has not exercised options to lease all of the Phase 2 Option Lands within the first ten (10) years from the date on which construction of Phase 1 is completed and the Hotel has commenced operations, the option shall expire and be of no further force or effect. The Tenant covenants and agrees that in exercising its option, if the option will affect less than all of the Phase 2 Option Lands, the Tenant shall act reasonably so that those Phase 2 Option Lands remaining under the Board's control shall at all times be useable parcels of land.

12. **Union Agreements:** HKH hereby acknowledges that the Board has collective agreements with the following local unions and HKH will take all necessary action in the construction and operation of the Hotel not to put the Board in breach of any of these agreements, it being understood that the foregoing shall not extend to any new collective agreements bargained by the Board with unions not listed below and entered into after the date hereof:
- (a) Labourers' International Union of North America, Local #506 (Material Handling/Cleaning);
 - (b) The United Association of Journeymen and Apprentices of the Plumbing and Pipe Fitting Industry of the United States and Canada, Local Union 46;
 - (c) The International Alliance of Theatrical Stage Employees and Moving Picture Technicians, Artists and Allied Crafts of the United States and Canada, Local #58, Toronto;
 - (d) The Ontario Provincial Council, United Brotherhood of Carpenters and Joiners of America (O.P.C.), Local Union 27;
 - (e) Canadian Union of Public Employees, Local 2840 (Parking Services);
 - (f) International Brotherhood of Electrical Workers, Local Union 353; and
 - (g) International Brotherhood of Painters and Allied Trade District Council 46.

HKH further acknowledges that some work performed at Exhibition Place is governed by provincial collective agreements. Provincial ICI certification is possible in relation to construction work related to the collective agreements described in (a) – (g) above, resulting from negotiations which are not controlled or negotiated by the Board.

For greater certainty, it is understood and agreed that the phrase “new collective agreements bargained by the Board with unions not listed below and entered into after the date hereof” does not include the renewal of existing agreements with the unions listed, whether on the same or different terms and conditions.

In the event a union successfully asserts through the grievance and arbitration procedures of the collective agreement that the Board is in breach thereof, and if the said breach was caused by the Tenant’s failure to comply with its obligations in this paragraph 13, then the Tenant shall make the Board whole in respect of an arbitration award rendered by an arbitrator against the Board (including, to the extent not included in such award, the Board’s reasonable professional fees incurred in connection with such proceedings) to the extent resulting from the Tenant’s breach of its obligations under this paragraph. HKH shall not be considered to have breached its obligations in this paragraph if HKH’s actions which resulted in the grievance were taken in good faith and without intent to cause the Board to be in breach of the collective agreement in question, and provided that HKH fully reimburses the Board in respect of its said damages awarded. Unless HKH has persistently been in breach of its obligations in this paragraph 13, any such adverse award shall not entitle the Board to exercise any right to terminate this Letter Agreement, the Lease, the Phase 2 Option or any other ancillary agreement between the parties hereto.

The Board agrees that it shall not agree to any amendment to the Labourers’ International Union of North America, Local #506 (Material Handling/Cleaning) which would have the effect of extending the scope of the work covered by the said agreement to include food and beverage handling and preparation at the Hotel without the concurrence of HKH.

HKH acknowledges that the covenants made by the Board in respect of its negotiations relating to the collective agreements relate solely to matters within the control of the Board, and are subject to any legally binding decisions of the Ontario Labour Relations Board relating thereto.

The Board agrees that, at the time of any future negotiations of the above-noted collective agreements during the Term, it will consult with HKH and provide HKH with an opportunity to advise the Board of any concerns or suggestions it might have pertaining to the collective agreement in question. The Board agrees to give due consideration to any matter so raised by HKH, but can make no assurances as to whether any matter will be tabled for discussion in negotiations or the possible outcome.

The Board further agrees to provide such reasonable information as HKH may from time to time require to fulfill its obligations un this Paragraph, and throughout the Term to

notify HKH of any revisions to or new collective agreements entered into with the aforesaid unions, and to provide HKH with copies thereof once finalized and signed.

HKH agrees that it will not object to or prevent the unionization of the hotel workforce within the Hotel Premises. Without limiting the generality of the foregoing, it is understood and agreed that HKH shall have the right to negotiate a first contract with any such union on terms which are reasonable and acceptable to HKH.

13. **Exclusivity:**

- (a) During the term of this Letter Agreement, the Board agrees that it shall not enter into negotiations with any other party relating to the development of a hotel within Exhibition Place. Similarly, HKH agrees that it shall not negotiate with any other party within the City of Toronto for the development of a hotel until the Tenant has entered into the Lease and construction on the Hotel has commenced; and
- (b) The Board agrees that the Lease shall grant to the Tenant so long as the Hotel is operating at the Leased Premises, the exclusive right to operate a hotel:
 - (i) during the period commencing from the execution of the Lease and ending on the date which is fifteen (15) years after the Rent Commencement Date, within the whole of Exhibition Place; and
 - (ii) during the remainder of the Initial Term, within the portion of Exhibition Place which is located to the east of Ontario Drive.

For the purposes hereof, Exhibition Place includes all of the lands over which the Board has authority on the date hereof.

14. **Other Terms of Lease:** The Lease shall be completely net and carefree to the Board. Without limiting the generality of the foregoing, the Tenant shall pay all taxes related to its use of the Hotel and its related ancillary uses and the Tenant's operations thereon, including goods and services taxes, harmonized sales taxes or any other taxes imposed on all sums payable as rent under the Lease. The Tenant acknowledges that this Letter Agreement contains the basic terms and conditions upon which the Board will lease the Leased Premises to the Tenant, and that supplementary terms and conditions shall be contained in the Lease. The Lease to be executed by the parties will be prepared using the Board's form of lease, and incorporating the provisions of this Letter Agreement. Without limiting the generality of the foregoing, it is understood and agreed that the Lease will include provisions requiring that the Tenant:

apply for a building permit for the Hotel no later than November 1, 2010
commence construction of the Hotel no later than six (6) months following issuance of
the building permit

substantially complete construction of the Project within twenty-four (24) months of the date of commencement of construction,
 obtain all necessary permits for the construction and operation of the Hotel
 carry on its operations at the Hotel in compliance with all applicable laws
 operate, maintain, repair and insure the Hotel to a quality and standard consistent with full service hotels of comparable size and quality in Toronto's business districts

The stipulated timelines shall be subject to force majeure provision and further, if either party has been working, and continues to work, diligently to move forward on the matters to meet these timelines but reasons outside the control of either party (i.e. heritage or historical or planning issues, or the Tenant's inability to timely obtain the necessary construction financing for the Project despite making diligent efforts to do so and having the necessary equity financing for the Project available) cause the timelines to be missed, then the other party shall not unreasonably withhold its consent to a request for a further extension for a period of time sufficient to complete the matters remaining to be resolved.

All documentation shall be in a form and content satisfactory to the City Solicitor. The Board's form of lease will be subject to: (i) such reasonable changes as are necessary to give effect to the provisions of this Letter Agreement, and (ii) such amendments as may be agreed upon following good faith negotiations between the Board and the Tenant, each acting reasonably. The parties will use their best efforts to finalize and execute the Lease by June 30, 2010.

15. **Development Plan:** The Board acknowledges receipt of the concept drawings prepared and submitted by Maragna Architect Inc. dated 08/2009 in support of the Development Plan for Phase 1. HKH acknowledges that the submission does not include the detailed financial information that was stipulated in the LOI to be included as part of the Development Plan. The Board acknowledges that it has approved the concept drawings dated August, 2009, although both parties acknowledge and agree that the Development Plan will be subject to refinement and possible amendment as HKH proceeds through the consultations to be held, and responds to feedback received, during the steps required to obtain all planning approvals.

The Board agrees that upon reasonable advance notice, HKH and its representatives shall be given access to the Phase 1 Lands at all reasonable times in order to complete such planning, design, engineering and surveying, and performing such excavating and drilling for soil and ground water analysis (subject to supervision by and in locations acceptable to the Board acting reasonably) (collectively the "**Inspections**") on or about such lands as may be reasonably required to permit HKH to refine the Development Plan as contemplated in this paragraph 15. HKH agrees to fill all excavations and drilled holes made by it and to level the areas so excavated or drilled and otherwise will use reasonable efforts to restore the lands to their state and condition prior to the Inspections.

16. **Approvals and Documentation:** The Development Plan shall be subject to approval by the Board and City Council, which approval shall not be unreasonably withheld or delayed. Concurrently with the refinement and consideration of the Development Plan,

the parties agree to work diligently in the preparation and negotiation of the terms of the Lease, the Phase 2 Option and all other ancillary documents necessary or advisable to give effect to the terms of this Letter Agreement.

17. **Alternative Site Plan Approval Process:** Following approval by City Council of the Development Plan, the parties agree that the plans for the Project shall be submitted to and finalized in accordance with the City's "alternate site plan approval process" for Exhibition Place and that no building permit for the Project shall be issued by the City until such site plan approval has been obtained. The Board agrees that, once it and City Council has approved Development Plan, it will actively co-operate with and support the Tenant's efforts to obtain any other approvals required to proceed with construction and operation of the Hotel including providing written expressions of support and facilitating and expediting the consideration of any submissions made by the Tenant to applicable authorities. After approval by the Board of the Development Plan, and provided that the proposed Hotel continues to be of a quality and standard consistent with full service hotels of comparable size and quality in Toronto's business districts, only material changes to the stipulated facilities of the Hotel described in the Development Plan, including the number of guest rooms, size or configuration of the meeting room space, or the exterior elevations and/or specifications of the Hotel, or the name of the Hotel, shall require the approval of the Board, not to be unreasonably withheld.
18. **Naming Rights:** The Lease will provide that the Hotel shall be named or such other name as is approved by the Board, which approval shall not be unreasonably withheld and that all exterior signage is subject to the Board's policies relating to signage at Exhibition Place, as well as normal site plan and development approvals, provided that the parties acknowledge and agree that Board approval shall not be required for and the Tenant shall be entitled to exterior signage to accommodate the name of the hotel. Any change to the name of the Hotel shall require the Board's prior approval, which approval shall not be unreasonably withheld, provided however it shall not be deemed unreasonable for the Board to withhold consent where the proposed name of the hotel conflicts with signage, sponsorship or advertising rights granted by the Board to other parties and which rights are in effect at the time of Tenant's request.
19. **Coordinated Services – Parking:** The design of the Hotel shall include parking spaces for approximately 400 vehicles as part of the Project. The rates for parking charged by the Tenant to patrons, who are not guests at the hotel or attending events at the Hotel, will not be lower than the rates charged from time to time by the Board for similar parking at Exhibition facilities.
20. **Coordinated Services – Marketing:** The Board will include the Hotel with the Direct Energy Centre and the Automotive Conference Centre as well as the other year-round activities and events occurring on the Exhibition Place site in marketing programs conducted by the Board (where appropriate and to the mutual advantage of both parties). As well, the Hotel would be promoted directly and at no charge by Exhibition Place (through electronic billboard signs on the Gardiner Expressway provided under

agreement with third parties) as part of its on-going, year-round promotion of the full complement of activities and events available on the site. The Hotel will be referred to by the Board in all of its marketing efforts and materials as the only “official” hotel for Exhibition Place, including the Direct Energy Centre and the Automotive Conference Centre. As part of the Lease, the parties will negotiate a marketing procedures plan, which will detail the conference centre event planning for the Automotive Conference Centre and the Hotel.

21. **Coordinated Services – Construction:** The Board and the Tenant shall cooperate with one another so that construction activities are performed based on a reasonable schedule in accordance with an approved schedule which takes in to account scheduled events at Exhibition Place as well as the financial impact of such schedule on the Tenant.
22. **Restrictions on Access:** HKH acknowledges and the Lease will reflect the fact that access to Exhibition Place will be limited during certain designated special events including, but not limited to, the Toronto Grand Prix and the CNE, which will cause inconvenience to guests, visitors, employees and suppliers of the Hotel. The Lease will provide for the Tenant to acknowledge and agree that it shall have no claim against the Board for any inconvenience or costs incurred as a result thereof, provided that during such designated special events, reasonable access (which shall be delineated in the Lease) is maintained to the Phase 1 Lands and the Phase 2 Option Lands, if the option is exercised, for delivery vehicles, patron vehicles and pedestrians will be maintained through either the Direct Energy Centre parking facilities, or through surface access from Newfoundland Drive and on that basis, there will be access at all times for Hotel guests and visitors, to and from the Hotel.
23. **Waterfront Revitalization:** HKH acknowledges that it is aware of the joint initiative undertaken by the City of Toronto, the Federal Government and the Province of Ontario with respect to the renewal of Toronto’s waterfront lands (which include Exhibition Place) and the incorporation of Waterfront Toronto (formerly the Toronto Waterfront Revitalization Corporation) to lead this waterfront renewal. HKH shall familiarize itself with “Our Toronto Waterfront”, a report presented to Council by the Toronto Waterfront Revitalization Task Force led by Robert A. Fung, and “Making Waves” a report issued by City of Toronto City Planning in October 2001, culminating in the adoption of the “Central Waterfront Secondary Plan” by Council in April, 2003. In addition, Waterfront Toronto is required to produce on an annual basis a “Business Plan” and once produced the Tenant shall familiarize itself with this annual Plan as amended and supplemented from time to time. For the purpose of this clause, “Our Toronto Waterfront”, “Making Waves”, the “Central Waterfront Secondary Plan” and the Waterfront Toronto “Business Plan” are referred to collectively as the “**Waterfront Revitalization Plan**”. In particular and without limiting the generality on the restrictions on use as set out in this letter, HKH acknowledges that any change in the concept/use of the Hotel permitted under this letter and to be permitted under the Lease may interfere with or be prohibited by the Waterfront Revitalization Plan, and acknowledges that, therefore, the Board may, acting reasonably, withhold its consent to a proposed change of concept/use of the Hotel and acknowledges

that, without limitation, it will be reasonable for the Board, in making its determination to withhold or to give its consent to the proposed change of concept/use, to make reference to the Waterfront Revitalization Plan.

24. **Real Property Taxes:** The Tenant shall pay all taxes, rates, duties, assessments, license fees and other charges that are levied, charged or assessed against or in respect of all businesses, improvements, equipment and facilities of the Tenant, its subtenants, assignees, licensees, franchises and other occupants on or in the Leased Premises or any part or parts thereof, or against or in respect of the City/Board on account of its ownership thereof or interest therein to the extent that the City/Board is assessed for any such taxes, duties, assessments and other charges in lieu of the same being levied, rated, charged or assessed against the Tenant. The Board agrees to co-operate with HKH and not to object to or advocate against any application on the part of HKH or the Tenant to obtain incentives intended to reduce property taxes that would otherwise be payable by the Tenant including property tax relief under any Community Improvement Plan (“CIP”) or Tax Increment Financing or Tax Increment Equivalent Grant (“TIF”) incentives, exemptions or reductions of building permit fees and development charges and, to the extent applicable, any incentives issued for sustainable development and/or energy conservation measures in buildings.
25. **Assignment/Subletting:** HKH shall not assign its rights under this Letter Agreement other than to a limited liability company, limited partnership or corporation owned or controlled, directly or indirectly, by Henry Kallan without the consent of the Board not to be unreasonably withheld or delayed. The Lease will provide that the Tenant will not assign, sublet or part with the possession of the Leased Premises or any part thereof to an arm’s length assignee without first obtaining the consent of the Board in writing, which consent shall not be unreasonably withheld or delayed, and will not, under any circumstances, license or sublease all or any portion or portions of the meeting room space and/or business centre facilities in the Hotel other than to a licensee or subtenant that has otherwise been approved by the Board in accordance with the Lease, which approval shall not be unreasonably withheld or delayed. For greater certainty, an “assignment” shall include a change in the effective control of the Tenant by any means whatsoever which results in HKHotels no longer having direct or indirect control of the operation of the Hotel. Notwithstanding the foregoing, the Tenant shall have the right without the consent of the Board or the City under the Lease but on notice to the Board to license or sublease premises within the Leased Premises to third parties for purposes which are ancillary to the primary use of the Leased Premises as a Hotel such as, by way of example only, a magazine stand, restaurant(s), parking operators, beauty salon, and car rental kiosk. Any change to the identity of the operator of the Hotel shall require the approval of the Board, which approval shall not be unreasonably withheld or delayed.
26. **Leasehold Mortgage:** The Tenant shall be permitted, without Board approval to obtain leasehold mortgage financing from one or more lenders for construction and take-out financing and to give security over the Lease with respect thereto. Mortgage lenders shall receive certain protections including notice of default, reasonable opportunity to

cure default (being a period beyond the tenant's grace period), and a right to an assignment or replacement of the lease on the same continuing terms if the Tenant's default is not curable. The Board agrees to enter into a tripartite agreement with any such lender and the Tenant reflecting on terms which include the foregoing protections reasonably satisfactory to all parties.

27. **Conditions:** The parties' obligations to enter into the Lease, the Phase 2 Option and any other ancillary agreement will be conditional upon the following (the "**Conditions**"), which shall be satisfied or waived within a period or periods of time set out in paragraph 30 below.

- (a) Delivery to HKH or confirmation that Leased Premises has been declared surplus by the City of Toronto;
- (b) Approval of this Letter Agreement by the Board and City Council;
- (c) HKH and the Board and if required, City Council and Heritage Toronto being satisfied with the Development Plan;
- (d) HKH being satisfied, in its sole discretion with the suitability of the site, soil and environmental condition of the Leased Premises, and with title to the Leased Premises;
- (e) Approval of the Lease, the Phase 2 Option and any related agreements by HKH, the Board and if necessary, City Council; and
- (f) HKH and the Board being satisfied with the financing arrangements relating to construction of the Hotel including the terms of any tripartite agreement among the Board, the Tenant and lender(s).

28. **Financing Plan:** HKH shall prepare and submit to the Board for its approval a Financing Plan which, as a minimum, will contain:

Financial projections, to the level of Earnings Before Interest, Depreciation, Amortization and Taxes for a period of not less than ten complete years following opening of the Project

Final capital cost estimates based on the Development Plan

Letters of reference from HKH's current lenders

29. **Termination:**

- (a) Both parties shall negotiate the terms and conditions of the Lease and the Phase 2 Option in good faith and neither party shall be able to terminate this Letter Agreement unless the other party has failed to comply with the terms of this Letter Agreement after written notice and a reasonable opportunity to cure is given or if both parties mutually agree to terminate this Letter Agreement.

- (b) Only if the Board exercises its right to terminate this Letter Agreement due to HKH's failure to comply with the terms of this Letter Agreement where such failure continues after the Board has given HKH written notice and a reasonable opportunity to cure such failure, the Board shall be entitled to retain the deposit. In the event of termination of the Letter Agreement for any other reason, the Board shall refund the Deposit to HKH, without interest.
- (c) If the Board exercises its right to terminate this Letter Agreement in accordance with the foregoing, HKH acknowledges and agrees that it shall have no claim against the Board for any costs and expenses incurred by HKH to the date of termination.
- (d) Either party shall have the right, but not the obligation, to terminate this Letter Agreement by written notice to the other, if any step outlined in the timetable below has not been achieved within 6 months following the targeted date set out below through no fault of either party.

30. **Timetable:** The terms and conditions set out in this Letter Agreement comprise the key business terms of the agreement between the Board and HKH. While the LOI included a schedule setting out a timetable for the future steps, the parties acknowledge that they have revised the timetable for completing the matters required for completion of the Hotel Project to the form below:

October 1, 2009	Board of Governors Business Development Committee
October 8, 2009	Special meeting of the Board of Governors
September – December 2009	Declaration of Development Plan lands as surplus by City
September – December 2009	HKH satisfied on soil/environmental conditions, title and all other due diligence including union issues
November 1, 2009	City of Toronto Executive Committee
November 30 & December 1, 2009	City Council
January 1, 2010 –September 30, 2010	Completion of alternative site plan process with City Planning & completion of contract drawings for building permit application by HKH
June 30, 2010	Finalize & execute Lease
December 31, 2010	Deliver letter of intent from recognized lender to provide necessary construction and (at HKH's option) mini-permanent financing for the Project. Deliver letter of intent from a qualified investor(s) to provide necessary equity financing for the Project
May 1, 2011	Building permit issued and construction begins

	within the next 5 months
October 1, 2011 – October 1, 2013	Construction (approx 24 months)
November 1, 2013	Opening of the hotel

31. **Additional Comments on Timing:** This timetable provides guideline dates only and is subject to further discussions and agreement between HKH and the management of Exhibition Place. Moreover, if either party has been working, and continues to work, diligently to move forward on the matters which remain outstanding, then the other party shall not unreasonably withhold its consent to a request to extend the dates for a period of time sufficient to complete the matters remaining to be resolved.
32. **Good Faith Negotiations:** We agree to work diligently, co-operatively, and in good faith with one another toward the shared goal of negotiating, finalizing and executing the Lease, the Phase 2 Option and any other required ancillary documentation as contemplated in this letter. The parties understand and agree that this Letter Agreement contains provisions that are intended by the parties to be legally binding and that while this Letter Agreement also sets out the principal terms of the Lease and Phase 2 Option and any required ancillary agreements, there are additional terms relating thereto and to the development of the Project have not as yet been fully defined and that will require further discussion and negotiation.
33. **Costs:** Both the Board and HKH agree that each will be responsible for their own costs, fees, disbursements and expenses incurred in the preparation and negotiation of this Letter Agreement, the Lease and all related documentation.
34. Schedule “A” attached to this Letter Agreement outlines the potential development lands which will be the subject matter of the Development Plan. The parties acknowledge that any Development Plan will have to protect the full rights of the Board to license, on an annual basis, to the Toronto Grand Prix that area highlighted as the existing pit lane area.
35. **Landlord as Municipal Corporation:** Nothing in this Letter Agreement derogates from, interferes with, or fetters the exercise by the City, its officers, employees, agents, representatives or elected and appointed officials, of all of its rights and obligations as a municipality (whether discretionary or mandatory), or imposes any obligations on the City in its role as a municipality, and the City shall not be prevented from or prejudiced in carrying out its statutory rights and responsibilities, including its planning rights and responsibilities.
36. This Letter Agreement sets forth the entire agreement and understanding among parties pertaining to the subject matter hereof and supercedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the parties, including as set forth in the Response, and there are no warranties, representations or other agreements between the parties in connection with the subject matter hereof except as specifically set forth herein.

SCHEDULE - A

