Financial Statements of

FORTIUS FOUNDATION

Year ended September 30, 2012

[redacted]

[redacted]

INDEPENDENT AUDITORS' REPORT

To the members of Fortius Foundation

We have audited the accompanying financial statements of Fortius Foundation, which comprise the statement of financial position as at September 30, 2012, and the statements of operations and deficiency in net assets and cash flows for the year then ended, and notes, including a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures elected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Fortius Foundation as at September 30, 2012 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[redacted]

Chartered Accountants

[redacted]

Burnaby, Canada

[redacted]

FORTIUS FOUNDATION

Statement of Financial Position

September 30, 2012, with comparative information for 2011

	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	$ 5,011,659	$ 1,321,556
Marketable securities	145,920	42,724
Deposits	817,303	1,210,588
Accounts receivable	695,895	273,101
Prepaid expenses	95,043	35,736
	6,765,820	2,883,705
Prepaid land lease	1,088,850	1,156,903
Capital assets (note 3)	40,865,426	19,888,544
Total assets	$ 48,720,096	$ 23,929,152
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 4)	$ 3,912,109	$ 1,209,544
Notes payable (note 5)	4,031,452	-
Due to related party	1,960	-
Deferred revenue	7,260	6,300
Current portion of capital lease obligation	3,225	-
	7,956,006	1,215,844
Long-term liabilities:		
Capital lease obligation	4,281	-
Notes payable to related parties (note 6)	26,516,721	27,363,570
Credit facility (note 7)	18,928,389	-
Asset retirement obligation (note 8)	536,445	511,724
	45,985,836	27,875,294
Deficiency in net assets	(5,221,746)	(5,161,986)
Total liabilities and net assets	$ 48,720,096	$ 23,929,152

See accompanying notes to financial statements.

Approved on behalf of the Board:

[redacted]
Director

[redacted]
Director

FORTIUS FOUNDATION

Statement of Operations and Deficiency in Net Assets

Year ended September 30, 2012, with comparative information for 2011

	2012	2011
Revenue:		
Donations	$ 3,127,453	$ 1,067,134
Rental income	47,098	36,711
Interest income	22,220	257
	3,196,771	1,104,102
Expenses:		
Financing fees and interest on notes payable	2,167,588	1,196,653
Salaries and benefits	260,378	280,500
Consulting and professional fees	230,841	346,741
Property taxes	158,655	175,703
Insurance	100,364	81,881
Amortization	97,407	93,772
Field lease	68,053	68,053
Accounting and legal fees	56,834	73,128
Administration	53,458	45,852
Bad debts	50,000	-
Accretion of asset retirement obligation	24,721	22,036
Rent	22,356	51,644
Banking and debt fees	7,626	8,311
	3,298,281	2,444,274
Deficiency in revenue over expenses before the undernoted	(101,510)	(1,340,172)
Gain (loss) on marketable securities	41,750	(16,153)
Forgiveness of interest on notes payable	-	6,828,131
Excess (deficiency) of revenue over expenses	(59,760)	5,471,806
Deficiency in net assets, beginning of year	(5,161,986)	(10,633,792)
Deficiency in net assets, end of year	$ (5,221,746)	$ (5,161,986)

See accompanying notes to financial statements.

PROTECTED B

FORTIUS FOUNDATION

Statement of Cash Flows

Year ended September 30, 2012, with comparative information for 2011

	2012	2011
Cash provided by (used in):		
Operating:		
Excess (deficiency) of revenue over expenses	$ (59,760)	$ 5,471,806
Items not involving cash:		
Amortization of prepaid land lease	68,053	68,053
Amortization	97,407	93,772
Loss (gain) on marketable securities	(41,750)	16,153
Forgiveness of interest on notes payable	-	(6,828,131)
Interest accrued on notes payable	31,452	-
Interest accrued on notes payable to related party	1,153,151	1,111,653
Accretion expense on asset retirement obligation	24,721	22,036
Receipt of donated securities	-	(37,948)
Bad debt	50,000	-
Changes in non-cash working capital:		
Decrease in deposits	393,285	232,006
Increase in accounts receivable	(472,794)	(247,412)
Increase in prepaid expenses	(59,307)	(23,970)
Increase in accounts payable and accrued liabilities	2,702,565	1,049,263
Due to related party	1,960	-
Increase (decrease) in deferred revenue	960	(7,025)
	3,889,943	920,256
Investing:		
Additions to capital assets	(21,066,783)	(2,733,026)
Increase in marketable securities	(61,446)	-
	(21,128,229)	(2,733,026)
Financing:		
Increase (decrease) in notes payable to related parties	(2,000,000)	3,106,463
Increase in notes payable	4,000,000	-
Increase in credit facility	18,928,389	-
	20,928,389	3,106,463
Increase in cash	3,690,103	1,293,693
Cash and cash equivalents, beginning of year	1,321,556	27,863
Cash and cash equivalents, end of year	$ 5,011,659	$ 1,321,556
Cash and cash equivalents comprised of:		
Cash	$ 5,011,659	$ 776,586
Cash equivalents	-	544,970
	$ 5,011,659	$ 1,321,556
Non-cash transactions:		
Capital assets acquired through assumption of capital lease obligation	$ 7,506	$ -

See accompanying notes to financial statements.

FORTIUS FOUNDATION
Notes to Financial Statements

Year ended September 30, 2012

---

1. Operations:

Fortius Foundation (the "Foundation") was incorporated under Part II of the Canada Corporations Act by Letters Patent on October 18, 2007 under the name Multisport Centre of Excellence Foundation. During the year, the Foundation changed its name to Fortius Foundation. As a registered public foundation, the Foundation is exempt from tax under the Income Tax Act. The Foundation is in the process of constructing an integrated sports medicine, science and training athlete development facility (the "Athlete Development Centre") located in Burnaby, BC. for the purpose of earning passive income.

These financial statements have been prepared on a going concern basis, which assumes the assets will be realized and used and liabilities discharged in the normal course of operations.

These financial statements reflect pre-operating activities and a deficiency in net assets accumulating for the past five years. The ability of the Foundation to continue as a going concern is dependent upon the continued support of donors, the holders of the notes payable, and the ability of the Foundation to obtain alternate sources of financing and to generate rental income. During the year, the Foundation obtained additional financing in the amount of approximately $19,000,000 as described in note 7. The Foundation continues to dialogue with a number of qualified donors to provide funding to manage cash flows during the start-up phase of the Athlete Development Centre. Subsequent to year-end, the Foundation secured a $13 million mortgage (see note 12). Should the going concern assumption not be appropriate, stated amounts of assets and liabilities may not be valid.

2. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(a) Revenue recognition:

The Foundation follows the deferral method of accounting for contributions. Restricted contributions are initially deferred and recognized as revenue in the year in which the related expenses are incurred or the restrictions are met. Unspent amounts are included in deferred revenue and contributions. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

(b) Cash and cash equivalents:

Cash and cash equivalents consist of cash on account and short-term investments with maturity date of less than 90 days from the date of acquisition.

2. Significant accounting policies (continued):

(c) Financial instruments:

The Foundation accounts for its financial instruments in accordance with Section 3855 of the Canadian Institute of Chartered Accountants (CICA) Handbook, *"Financial Instruments - Recognition and Measurement"*. This section requires that all non-derivative financial assets and liabilities be measured at fair value with the exception of (1) loans and receivables and held-to-maturity investments, which should be measured at amortized cost; and (2) investments in equity instruments that do not have a quoted market price in an active market, which should be measured at cost, other than such instruments that are classified as held for trading. The section also requires that gains and losses on financial instruments measured at fair value be recognized in net income in the periods in which they arise, with the exception of unrealized gains and losses on financial assets classified as available-for-sale, which are recognized directly in net assets until the financial asset is sold, traded or otherwise derecognized or becomes impaired; and certain financial instruments that are part of a designated hedging relationship.

The Foundation continues to follow the recommendations of Handbook section 3861 with respect to presentation and disclosures for financial instruments, as permitted for not-for-profit organizations.

The Foundation has designated its deposits and accounts receivable as loans and receivables and its accounts payable and accrued liabilities, notes payable and due to related party as other financial liabilities, and has measured these instruments at amortized cost, which approximate fair value.

The Foundation has designated its investments in marketable securities held for trading and has measured these instruments at fair value. Changes in fair value are recorded in the statement of operations.

(d) Deposits:

Deposits primarily consist of amounts paid to local government organizations for land planning and construction bonds. Repayment of these amounts is expected shortly after completion of construction of the Athlete Development Centre.

(e) Capital assets and prepaid land lease:

Capital assets are stated at cost, less accumulated amortization.

Capital assets are amortized over their useful lives as follows:

Field turf	10 years straight line
Telecommunications equipment	20% declining balance
Computer hardware and software	50% declining balance
Equipment under capital lease	20% declining balance
Hydrotherapy equipment	20% declining balance

---

2. Significant accounting policies (continued):

(e) Capital assets and prepaid land lease (continued):

No amortization has been charged to date on the facility under construction as these assets are not yet available for use. The Foundation does not capitalize interest on debt related to construction.

The prepaid land lease is being amortized over the lease term of twenty years.

(f) Asset retirement obligations

The Foundation recognizes asset retirement obligations where a reasonably definitive estimate of the fair value of the obligation can be determined. The Foundation estimates fair value by determining the current fair value required to settle the asset retirement obligation, adjusted for inflation through to the expected date of settlement, which is discounted to its present value. The resulting annual expense is reflected in the accretion expense. The Foundation reviews changes in estimated future cash flows and timing underlying the fair value measurement on an annual basis.

(g) Related party transactions:

Monetary related party transactions and non-monetary related party transactions that have commercial substance are measured at the exchange amount when they are in the normal course of business, except when the transaction is an exchange of a product or property held for sale in the normal course of operations. Where the transaction is not in the normal course of operations, it is measured at the exchange amount when there is a substantive change in the ownership of the item transferred and there is independent evidence of the exchange amount.

(h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Areas subject to significant estimates include valuation of accounts receivable, the useful life and amortization of capital assets, asset retirement obligations, and measurement of interest obligation on notes payable. Actual results could differ from these estimates.

FORTIUS FOUNDATION

Notes to Financial Statements (continued)

Year ended September 30, 2012

2. Significant accounting policies (continued):

(i) Future accounting standards:

In December 2010, the Accounting Standards Board of the CICA released the accounting standards impacting the future financial reporting framework for not-for-profit organizations. Under these new accounting standards, not-for-profit organizations that are not controlled by a government, such as the Foundation, will apply either the Accounting Standards for Not-for-Profit Organizations contained in Part III of the CICA Handbook-Accounting or International Financial Reporting Standards. The Foundation has decided to adopt the new Accounting Standards for Not-for-Profit organizations.

3. Capital assets:

	Cost	Accumulated amortization	2012 Net book value	2011 Net book value
Land	$ 3,098,439	$ -	$ 3,098,439	$ 3,098,439
Facility under construction	36,698,796	-	36,698,796	15,930,430
Field turf	1,118,422	357,684	760,738	850,159
Computer hardware and software	21,534	8,933	12,600	-
Hydrotherapy equipment	283,582	-	283,582	-
Equipment under capital lease	9,763	976	8,787	-
Telecommunications equipment	4,911	2,428	2,484	9,516
	$ 41,235,447	$ 370,021	$ 40,865,426	$ 19,888,544

Facility under construction relates to the Athlete Development Centre. No amortization has been charged in the year as the facility was not complete or available for use.

4. Accounts payable and accrued liabilities:

	2012	2011
Accounts payable	$ 1,900,018	$ 1,063,899
Accrued liabilities	2,012,091	145,645
	$ 3,912,109	$ 1,209,544

FORTIUS FOUNDATION

Notes to Financial Statements (continued)

Year ended September 30, 2012

5. Notes payable:

Notes payable totaling $4,000,000 plus accrued interest of $31,452 is due to Global Charity Fund. The notes bear interest at 7% per annum, are unsecured, and repayable on demand, with 90 days' notice. The notes are payable within the next year, and have been classified as a current liability.

6. Notes payable to related parties:

	Imladris (a)	Director (b)	Total 2012	Total 2011
Opening balance	$ 27,263,570	$ 100,000	$ 27,363,570	$ 29,973,585
Repaid interest	(2,000,000)	-	(2,000,000)	(1,285,000)
Issued	-	-	-	4,391,464
Interest forgiven	-	-	-	(6,828,131)
Interest accrued during the year	1,153,151	-	1,153,151	1,111,652
Closing balance	$ 26,416,721	$ 100,000	$ 26,516,721	$ 27,363,570

The related parties to whom both notes are due have confirmed in writing they will waive the right to demand repayment of the notes, at a minimum until October 1, 2013. Consequently, the notes have been presented as long-term liabilities.

(a) Imladris Foundation:

Two notes payable totaling $24,090,865 plus accrued interest of $2,325,857 are due to Imladris Foundation ("Imladris", formerly Elysium Foundation), a party related by virtue of common control and board membership.

The first note for $23,000,000 bears interest at 5% per annum and is secured by a second charge mortgage on the land and buildings of the Foundation and a general security agreement. A second note was obtained for $1,090,865 which is non-interest bearing and is unsecured. The notes are repayable on demand, with 90 days' notice.

(b) Note payable to director:

The note to a director of the Foundation is non-interest bearing, unsecured and repayable on demand, with 90 days' notice.

FORTIUS FOUNDATION

Notes to Financial Statements (continued)

Year ended September 30, 2012

7. Credit facility:

	2012	2011
Principal balance	$ 18,619,886	$ -
Accrued interest	308,503	-
	18,928,389	
Current portion of long-term debt	-	-
Long-term portion	$ 18,928,389	$ -

On October 21, 2011, the Foundation entered into an agreement relating to a $20 million secured mortgage financing with [redacted]nder the terms of the agreement, [redacted] will advance up to $20 million in installments on a cost-to-complete basis as the project proceeds, for a term of two years. Advances are applied to fees, transaction costs, extinguishing existing indebtedness, and financing completion of the Athlete Development Centre. Interest is charged on advances at 10.25% per annum. The Foundation granted [redacted] first mortgage on the Athlete Development Centre, first assignment on leases, rents, personal property, and insurance policies.

The principal is due on October 21, 2013, with the option to extend for one month. The Foundation may repay all amounts with a one month written notice. If repayment occurs before June 1, 2013, an additional payment of one month's interest is due.

8. Asset retirement obligation:

The Foundation has recognized an asset retirement obligation for future activities and costs related to restoration of a turf field facility leased from City of Burnaby.

	2012	2011
Asset retirement obligation, beginning of year	$ 511,724	$ 489,688
Accretion expense	24,721	22,036
Asset retirement obligation, end of year	$ 536,445	$ 511,724

As at September 30, 2012, the total undiscounted amount of estimated future cash flows required to settle the obligation was approximately $1,100,000 (2011 - $1,100,000).

FORTIUS FOUNDATION
Notes to Financial Statements (continued)

Year ended September 30, 2012

9. Commitments:

The Foundation has financial obligations relating to the achievement of certain construction milestones. As of September 30, 2012, the maximum estimated remaining potential obligation is $460,282, which will become due when the Athlete Development Centre reaches substantial completion. At this date, $164,000 of this amount has been accrued for services provided prior to year end.

10. Related party transactions:

Effective October 1, 2011, the Foundation entered into an agreement to sublease office space to Fortius Institute Inc., a related party by virtue of common board members. During the period, the Foundation recorded a reduction in rent expense in the amount of $54,396 (2011 – nil) relating to revenue from the sublease.

11. Financial instruments:

The significant financial risks to which the Foundation is exposed are interest rate risk, liquidity risk and market risk.

(a) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the notes payable are due in the next year, and the credit facility is due in fiscal 2014, there is interest rate risk relating to their refinancing.

(b) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Foundation mitigates this risk by holding primarily short-term money market funds.

(c) Liquidity risk:

Liquidity risk is the risk that the Foundation will encounter difficulty in meeting obligations associated with financial liabilities. The Foundation is exposed to liquidity risk arising primarily from Facility under construction, accounts payable and interest and notes payable obligations. The Foundation's ability to meet obligations depends on donations and loans during the pre-operating phase.

12. Subsequent events:

Subsequent to year-end, the Foundation entered into a mortgage agreement with Almoner Foundation ("Almoner"). Under the terms of the agreement, Almoner will advance up to $13 million in accordance with certain conditions. The mortgage bears interest at prime plus 2.5% per annum over the term of five years. Monthly repayment will be over twenty years, with additional principal payments of $1 to $1.5 million occurring every six months during the first two years of the term. The Foundation granted Almoner a second mortgage on the Athlete Development Centre, second assignment of leases and rents, and second rank to general security agreement. As a result, the Imladris note payable will hold a third charge mortgage (note 6). Subsequent to year-end, the Foundation received a gift from QUC Residents Housing Foundation of $1.1 million.

13. Comparative figures:

Certain of the comparative figures have been reclassified to conform to the current year's presentation.