PROTECTED B

Financial Statements of

FORTIUS FOUNDATION

Years ended September 30, 2013 and 2012

DRAFT - June 25, 2014

INDEPENDENT AUDITORS' REPORT

To the Members of Fortius Foundation

We have audited the accompanying financial statements of Fortius Foundation, which comprise the statements of financial position as at September 30, 2013, September 30, 2012, and October 1, 2011, the statements of operations and deficiency in net assets and cash flows for the years ended September 30, 2013 and September 30, 2012, and notes, comprising 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 accounting standards for not-for-profit organizations, 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an 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 selected 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, 2013, September 30, 2012 and October 1, 2011 and its results of operations and its cash flows for the years ended September 30, 2013 and September 30, 2012 in accordance with Canadian accounting standards for not-for-profit organizations.

Report on other legal and regulatory requirements

As required by the Society Act (British Columbia), we report that, in our opinion, the accounting principles in the Canadian accounting standards for not-for-profit organizations have been applied on a consistent basis.

Chartered Accountants

DATE OF AUDIT COMPLETION

Burnaby, Canada

[redacted]

PROTECTED B

FORTIUS FOUNDATION

Statements of Financial Position

September 30, 2013, September 30, 2012 and October 1, 2011

		September 30, 2013		September 30, 2012		October 1, 2011
Assets						
Current assets:						
Cash and cash equivalents	$	371,960	$	5,011,659	$	1,321,556
Short-term investments		3,672		145,920		42,724
Accounts receivable		83,850		634,972		273,101
Prepaid expenses		11,854		95,043		35,736
Deposits (note 3)		476,151		817,303		1,210,588
Due from related parties (note 9(a))		1,526,105		60,923		-
Prepaid interest to related party (note 9(b))		175,515		-		-
		2,649,107		6,765,820		2,883,705
Prepaid land lease (note 4)		1,020,797		1,088,850		1,156,903
Capital assets (note 5)		55,940,438		40,865,426		19,888,544
	$	59,610,342	$	48,720,096	$	23,929,152
Liabilities and Deficiency in Net Assets						
Current liabilities:						
Accounts payable and accrued liabilities	$	1,695,608	$	4,220,612	$	1,209,544
Deferred revenue and contributions		-		7,260		6,300
Current portion of obligation under capital lease		3,060		3,225		-
Current portion of mortgage loans (note 6)		500,004		-		-
Current portion of long-term debt (note 7)		-		4,031,452		-
Due to related party (note 9(c))		133,393		1,960		-
		2,332,065		8,264,509		1,215,844
Long-term liabilities:						
Obligation under capital lease		1,220		4,281		-
Mortgage loans (note 6)		32,212,496		18,619,886		-
Long-term debt (note 7)		4,206,102		-		-
Asset retirement obligation (note 8)		562,361		536,445		511,724
Notes payable to related parties (note 9(d))		26,595,865		26,516,721		27,363,570
Total liabilities		65,910,109		53,941,842		29,091,138
Deficiency in net assets		(6,299,767)		(5,221,746)		(5,161,986)
	$	59,610,342	$	48,720,096	$	23,929,152

Subsequent events (notes 6(a), 7(b), and 12)

See accompanying notes to financial statements.

Approved on behalf of the Board:

____________________ Director ____________________ Director

[redacted]

PROTECTED B

FORTIUS FOUNDATION

Statements of Operations and Deficiency in Net Assets

Years ended September 30, 2013 and 2012

	2013	2012
Revenue:		
Contributions and donations	$ 3,661,175	$ 3,127,453
Rental and other income	913,915	47,098
Investment income	39,796	22,220
	4,614,886	3,196,771
Expenses:		
Interest and loan fees	3,304,496	2,175,214
Amortization	1,264,438	97,407
Consulting and professional fees	302,665	230,841
Accounting and legal fees	159,632	56,834
Salaries and benefits	150,731	260,378
Insurance	111,962	100,364
Administration	82,664	53,458
Field lease (note 4)	68,053	68,053
Rent	55,533	22,356
Property taxes	54,047	158,655
Accretion of asset retirement obligation	25,916	24,721
Computer services and supplies	24,654	-
Unrecoverable commodity taxes	16,689	-
Equipment supplies	12,903	-
Repairs and maintenance	6,194	-
Donations	6,000	-
Miscellaneous	994	-
Bad debt	-	50,000
	5,647,571	3,298,281
Deficiency of revenue over expenses before the undernoted	(1,032,685)	(101,510)
Gain (loss) on short-term investments	(41,908)	41,750
Loss on foreign exchange	(3,428)	-
	(45,336)	41,750
Deficiency of revenue over expenses	(1,078,021)	(59,760)
Deficiency in net assets, beginning of year	(5,221,746)	(5,161,986)
Deficiency in net assets, end of year	$ (6,299,767)	$ (5,221,746)

See accompanying notes to financial statements.

[redacted]

FORTIUS FOUNDATION

Statements of Cash Flows

Years ended September 30, 2013 and 2012

	2013	2012
Cash provided by (used in):		
Operations:		
Deficiency of revenue over expenses	$ (1,078,021)	$ (59,760)
Items not involving cash:		
Field lease	68,053	68,053
Amortization	1,264,438	97,407
Accretion of asset retirement obligation	25,916	24,721
Interest and loan fees expense on mortgage loans	1,971,359	-
Interest expense on long-term debt	163,492	31,452
Interest expense on notes payable to related parties	1,150,000	1,153,151
Bad debt	-	50,000
Interest and loan fees paid on mortgage loans	(2,759,104)	-
Interest paid on long-term debt	(32,602)	-
Interest paid on notes payable to related party	(3,475,856)	(2,000,000)
Changes in non-cash operating working capital:		
Decrease (increase) in accounts receivable	551,122	(411,871)
Decrease (increase) in prepaid expenses	83,189	(59,307)
Decrease in deposits	341,152	393,285
Increase in due from related parties	(1,465,182)	(60,923)
Increase in prepaid interest to related party	(175,515)	-
Increase (decrease) in accounts payable and accrued liabilities	(2,216,501)	3,011,068
Increase (decrease) in deferred revenue and contributions	(7,260)	960
Increase (decrease) in due to related party	131,433	1,960
	(5,459,887)	2,240,196
Investments:		
Purchases of capital assets	(15,689,375)	(21,066,783)
Decrease (increase) in short-term investments	142,248	(103,196)
	(15,547,127)	(21,169,979)
Financing:		
Repayment of obligation under capital lease	(3,226)	-
Advances on mortgage loans	14,380,114	18,619,886
Repayment of mortgage loans	(458,333)	-
Issuance of long-term debt	2,043,760	4,000,000
Repayment of long-term debt	(2,000,000)	-
Issuance of notes payable to related party	2,405,000	-
	16,367,315	22,619,886
Increase (decrease) in cash and cash equivalents	(4,639,699)	3,690,103
Cash and cash equivalents, beginning of year	5,011,659	1,321,556
Cash and cash equivalents, end of year	$ 371,960	$ 5,011,659
Non-cash transactions		
Acquisition of capital asset through capital lease	$ -	$ 7,506

See accompanying notes to financial statements.

[redacted]

FORTIUS FOUNDATION

Notes to Financial Statements

Years ended September 30, 2013 and 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 ("Multisport Foundation"). During the 2012 fiscal year, Multisport Foundation changed its name to Fortius Foundation. As a registered public foundation, the Foundation is exempt from tax under the Income Tax Act.

In May 2013, the Foundation completed construction of an integrated sports medicine, science and athlete training and development facility (the "Athlete Development Centre") located in Burnaby, British Columbia, which is held to generate ongoing passive investment income for use by the Foundation to support other registered charities and qualified donees. The Foundation entered into an agreement to lease the Athlete Development Centre to [redacted] a party related by virtue of common control and board membership. The [redacted] commenced its operations in May 2013 when construction of the Athlete Development Centre was nearing its completion.

These financial statements have been prepared on a going concern basis, which assumes the assets will be realized and liabilities discharged in the normal course of operations. These financial statements primarily reflect pre-operating activities and a deficiency in net assets accumulated over the past six years. As at September 30, 2013, the Foundation has a deficiency in net assets of $6,299,767 and during the year ended September 30, 2013, the Foundation incurred a deficiency of revenue over expenses of $1,078,021. The Foundation continues the dialogue with a number of donors to provide funding and has not secured additional financing to fund operations. As a result, there exists a material uncertainty that casts significant doubt about the Foundation's ability to continue as a going concern.

The ability of the Foundation to continue as a going concern is dependent upon the continued support of its lenders, and the ability of the Foundation to obtain alternate sources of financing and to generate positive cash flow from operations. Subsequent to year-end, the Foundation obtained additional financing of $1,650,000 (note 12). Should the going concern assumption not be appropriate, stated amounts of assets and liabilities and their classification may not be appropriate and may differ significantly from those reported in the financial statements.

On October 1, 2012, the Foundation adopted Canadian accounting standards for not-for-profit organizations in Part III of the CICA Handbook. These are the first financial statements prepared in accordance with Canadian accounting standards for not-for-profit organizations.

In accordance with the transitional provisions in Canadian accounting standards for not-for-profit organizations, the Foundation has adopted the changes retrospectively, subject to certain exemptions allowed under these standards. The transition date is October 1, 2012 and all comparative information provided has been presented by applying Canadian accounting standards for not-for-profit organizations. There were no changes to the previously reported statement of financial position as at September 30, 2012 and October 1, 2011, or the previously reported statements of operations and deficiency in net assets, and cash flows for the year ended September 30, 2012 resulting from the adoption of these standards.

[redacted]

2. Significant accounting policies:

These financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the CICA Handbook. The significant accounting policies are as follows:

(a) Revenue recognition:

The Foundation follows the deferral method of accounting for contributions, which include donations and grants.

Externally restricted contributions are initially deferred and recognized as revenue in the year in which the related expenses are recognized. 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.

Revenue from fees and rental contracts is recognized when the services are provided.

Restricted investment income is initially deferred and recognized as revenue in the year in which the related expenses are recognized. Unrestricted investment income is recognized as revenue when earned.

(b) Cash and cash equivalents:

Cash and cash equivalents consist of cash on account and short-term deposits which are highly liquid with maturity dates of less than three months on acquisition.

(c) Capital assets:

Capital assets are recorded at cost less accumulated amortization.

Interest is capitalized whenever external debt is issued to finance the construction of capital assets. The Foundation capitalized interest and fees related to the [redacted] mortgage loan (note 6(a)) up to the date of completion of the Athlete Development Centre. During the year ended September 30, 2013, $650,075 was capitalized to capital assets (2012 - $532,298).

Capital assets are amortized, commencing the date they are available for use, over their estimated useful lives on the following basis:

Athlete Development Centre	25 years straight-line
Field turf	10 years straight-line
Furniture and fixtures	10 years straight-line
Information technology infrastructure	20% declining balance
Specialized medical equipment	5 years straight-line
Fitness equipment	5 years straight-line
Hydrotherapy equipment	5 years straight-line
Computer software and hardware	20% declining balance
Bedding and appliances	5 years straight-line
Telecommunications equipment	20% declining balance

[redacted]

2. Significant accounting policies (continued):

(c) Capital assets (continued):

Land is not amortized. Equipment under capital lease is amortized over the lesser of its useful life or the expected term of the lease.

When a capital asset no longer contributes to the Foundation's ability to provide services, its carrying amount is written down to its residual value.

(d) Asset retirement obligation:

The Foundation recognizes an asset retirement obligation where a reasonable estimate of the fair value of the obligation can be determined. The Foundation estimates fair value by determining the current market cost 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 referred to as accretion expense. The Foundation reviews changes in the amounts and timing of estimated future cash flows underlying the fair value measurement on a periodic basis.

(e) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Foundation has elected to carry all its short-term investments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets carried at amortized cost are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Foundation determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Foundation expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

[redacted]

2. Significant accounting policies (continued):

(f) 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 and amount due from related parties, useful lives for amortization of capital assets and asset retirement obligations and related assets. Actual results could differ from these estimates.

3. Deposits:

Deposits primarily consist of amounts paid to local government for land planning and construction bonds.

4. Prepaid land lease:

Prepaid land lease relates to the prepayment of $1,361,060 on an operating lease for land and land improvements with the City of Burnaby. The prepayment is recognized as an expense on a straight-line basis over the term of the lease, being 20 years.

5. Capital assets:

September 30, 2013	Cost	Accumulated amortization	Net book value
Land	$ 3,098,439	$ -	$ 3,098,439
Athlete Development Centre (a)	48,502,637	810,554	47,692,083
Field turf	1,118,422	447,105	671,317
Furniture and fixtures	1,613,580	67,233	1,546,347
Information technology infrastructure	1,503,518	150,352	1,353,166
Specialized medical equipment	615,698	50,480	565,218
Fitness equipment	523,100	43,028	480,072
Hydrotherapy equipment	283,582	26,632	259,950
Computer software and hardware	244,696	33,770	210,926
Bedding and appliances	58,766	4,862	53,904
Equipment under capital lease	9,763	2,733	7,030
Telecommunications equipment	4,911	2,925	1,986
	$ 57,577,112	$ 1,636,674	$ 55,940,438

[redacted]

FORTIUS FOUNDATION

Notes to Financial Statements (continued)

Years ended September 30, 2013 and 2012

5. Capital assets (continued):

September 30, 2012	Cost	Accumulated amortization	Net book value
Land	$ 3,098,439	$ -	$ 3,098,439
Facility under development (a)	36,698,796	-	36,698,796
Field turf	1,118,422	357,684	760,738
Hydrotherapy equipment	283,582	-	283,582
Computer software and hardware	21,534	8,933	12,600
Equipment under capital lease	9,763	976	8,787
Telecommunications equipment	4,911	2,428	2,484
	$ 41,235,447	$ 370,021	$ 40,865,426

October 1, 2011	Cost	Accumulated amortization	Net book value
Land	$ 3,098,439	$ -	$ 3,098,439
Facility under development (a)	15,930,430	-	15,930,430
Field turf	1,118,422	268,263	850,159
Equipment	13,867	4,351	9,516
	$ 20,161,158	$ 272,614	$ 19,888,544

(a) Facility under development relates to the Athlete Development Centre. The Athlete Development Centre commenced operations in May 2013 when construction of the facility was nearing its completion. Amortization expense relating to the Athlete Development Centre was recognized beginning in May 2013.

[redacted]

FORTIUS FOUNDATION

Notes to Financial Statements (continued)

Years ended September 30, 2013 and 2012

6. Mortgage loans:

	September 30, 2013	September 30, 2012	October 1, 2011
[redacted]	$ 20,170,833	$ 18,619,886	$ -
Almoner Foundation mortgage loan (b)	12,541,667	-	-
	32,712,500	18,619,886	-
Current portion of mortgage loan	500,004	-	-
	$ 32,212,496	$ 18,619,886	$ -

(a) [redacted] mortgage loan:

On October 21, 2011, the Foundation entered into an agreement with [redacted] for a mortgage loan of up to $20 million for purposes of construction of the Athlete Development Centre. The loan bears interest at a rate of 10.25% per annum, calculated and payable monthly. The loan is secured by a first-ranking security interest on the Athlete Development Centre, specific and general assignment of all leases, rents, and other agreements relating to the Athlete Development Centre, and a general security agreement.

The principal was initially due on October 21, 2013, with an option to extend for one month, and was extended during fiscal 2013 to December 31, 2013. Subsequent to year end, on April 24, 2014, the loan was refinanced with [redacted] to increase the amount available under the facility to $25,000,000 and to extend the maturity date to March 31, 2015. The payment of interest was deferred until March 31, 2015. On June 19, 2014, the Foundation received its first supplemental advance of $767,000, net of fees and interest withheld.

As at September 30, 2013, accrued interest of nil (September 30, 2012 - $308,503, October 1, 2011 - nil) is recorded as accounts payable and accrued liabilities, and accrued interest of $170,833 (September 30, 2012 - nil, October 1, 2011 - nil) is included in the balance of the loan.

(b) Almoner Foundation mortgage loan:

On October 24, 2012 the Foundation entered into an agreement with Almoner Foundation ("Almoner") for a $13,000,000 non-revolving commercial mortgage loan for purposes of construction of the Athlete Development Centre. The loan bears interest at 4% per annum, calculated and payable monthly, with monthly principal repayments of $41,667 and additional principal repayments of $1,500,000 in each of May 2014 and November 2014 and $1,000,000 in each of May 2015 and November 2015. The loan matures on October 24, 2017. The loan is secured by a second mortgage on the Athlete Development Centre, ranking behind a first mortgage in favor of [redacted] (note 6(a)).

During the year ended September 30, 2013, the Foundation repaid $458,333 of the balance owing on the loan.

[redacted]

FORTIUS FOUNDATION

Notes to Financial Statements (continued)

Years ended September 30, 2013 and 2012

6. Mortgage loans (continued):

(b) Almoner Foundation mortgage loan (continued):

Subsequent to year end, Almoner agreed, in writing, not to demand repayment on the additional principal repayment of $1,500,000 that was initially due in May 2014 prior to October 1, 2014, and accordingly, the amount has been classified as a long-term liability.

The principal payments relating to the Almoner loan for the next five years are as follows:

2014	$ 500,004
2015	4,500,004
2016	1,500,004
2017	500,004
2018	5,541,651

7. Long-term debt:

	September 30, 2013	September 30, 2012	October 1, 2011
Promissory notes payable to Global Charity Fund (a)	$ 2,152,274	$ 4,031,452	$ -
Loan payable to [redacted]	2,053,828	-	-
	4,206,102	4,031,452	-
Current portion of long-term debt	-	4,031,452	-
	$ 4,206,102	$ -	$ -

(a) Promissory notes payable to Global Charity Fund:

During the year ended September 30, 2012, the Foundation entered into two promissory note agreements totaling $4,000,000 payable to Global Charity Fund, an arm's-length charity fund. Each promissory note is in the amount of $2,000,000, bears interest at 7% per annum, is unsecured, and has no fixed repayment terms.

During the year ended September 30, 2013, the Foundation repaid one of the promissory notes for $2,000,000. The Foundation also amended the second promissory note agreement to extend the maturity date from May 20, 2013 to May 20, 2014. Subsequent to year end, Global Charity Fund agreed, in writing, not to demand repayment on the note prior to October 1, 2014, and accordingly, the amount has been classified as a long-term liability.

As at September 30, 2013, accrued interest of $152,274 (September 30, 2012 - $31,452, October 1, 2011 - nil) is included in debt.

7. Long-term debt (continued):

(b) Loan payable to [redacted]

(i) On May 7, 2013, the Foundation entered into a loan agreement with [redacted] pursuant to which the Foundation received an interest bearing loan of $500,000 to be used to fund construction costs and purchase of furniture and fixtures for the Athlete Development Centre as well as to fund the customization of the [redacted] software. The principal is due and repayable on the loan maturity date of May 7, 2018. The loan is secured by a third mortgage on the Athlete Development Centre, ranking behind the first mortgage in favor of [redacted] (note 6(a)) and second mortgage in favor of Almoner (note 6(b)).

The loan bears interest at a rate of 5% per annum calculated monthly. Interest accrued during the first year is payable on the maturity date. Interest accrued for the period from the first anniversary to and including maturity date is payable at a rate of 2.5% per annum monthly commencing on June 1, 2014, and the balance of interest deferred and payable on the maturity date.

As at September 30, 2013, accrued interest of $10,068 (September 30, 2012 and October 1, 2011 - nil) is included in debt.

(ii) The Foundation partnered with [redacted] to build, integrate, and install an end-to-end information and communication technology solution in the Athlete Development Centre. During the year ended September 30, 2013, the cost of the equipment, installation, and labour incurred was $1,543,760 (2012 – nil). Subsequent to year end, [redacted] in writing, not to demand repayment on the amount payable of $1,543,760 prior to October 1, 2014, and accordingly, the amount has been classified as a long-term liability.

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 the City of Burnaby.

	2013	2012
Asset retirement obligation, beginning of year	$ 536,445	$ 511,724
Accretion expense	25,916	24,721
Asset retirement obligation, end of year	$ 562,361	$ 536,445

As at September 30, 2013, the total undiscounted amount of estimated future cash flows required to settle the obligation was approximately $1,100,000 (September 30, 2012 - $1,100,000, October 1, 2011 - $1,100,000).

[redacted]

9. Related party balances:

(a) Due from related parties:

	September 30, 2013	September 30, 2012	October 1, 2011
[redacted]	$ 102,310	$ -	$ -
	1,423,795	60,923	-
	$ 1,526,105	$ 60,923	$ -

The amounts due from related parties are in the normal course of business. The related party balances have no fixed repayment terms, do not bear any interest, and are unsecured.

(b) Prepaid interest to related party:

During the year ended September 30, 2013, the Foundation prepaid interest in the amount of $175,515 relating to the notes payable owing to Imladris Foundation (note 9(d)).

(c) Due to related party:

	September 30, 2013	September 30, 2012	October 1, 2011
[redacted]	$ 133,393	$ 1,960	$ -

The amount due to related party is in the normal course of business. The related party balance does not bear any interest and is payable on demand.

(d) Notes payable to related parties:

	September 30, 2013	September 30, 2012	October 1, 2011
Imladris Foundation (i)	$ 24,090,865	$ 26,416,721	$ 27,263,570
Director of the Foundation (ii)	1,905,000	100,000	100,000
[redacted]	600,000	-	-
	$ 26,595,865	$ 26,516,721	$ 27,363,570

(i) Imladris Foundation:

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

9. Related party balances (continued):

(d) Notes payable to related parties (continued):

(i) Imladris Foundation (continued):

The first note payable in the amount of $23,000,000 bears interest at 5% per annum and is secured by a fourth mortgage on the Athlete Development Centre and a general security agreement. The overpayment of interest has been recorded as prepaid interest in the current year (note 9(**b**)). The second note payable in the amount of $1,090,865 is non-interest bearing and is unsecured.

Both notes are payable on demand with 90 days' notice. Subsequent to year end, Imladris agreed, in writing, not to demand repayment on the notes prior to October 1, 2014, and accordingly, the total amount of the notes has been classified as a long-term liability.

(ii) Director of the Foundation:

The notes payable to a director of the Foundation are non-interest bearing, unsecured and payable on demand with 90-days notice. Subsequent to year end, the director agreed, in writing, not to demand repayment on the note prior to October 1, 2014, and accordingly, the amount has been classified as a long-term liability.

[redacted]

The note payable is non-interest bearing, unsecured and payable on demand with 90-days notice. Subsequent to year end, the [redacted] agreed, in writing, not to demand repayment on the note prior to October 1, 2014, and accordingly, the amount has been classified as a long-term liability.

10. Related party transactions:

(a) Athlete Development Centre lease to the [redacted]

Effective April 30, 2013, the Foundation entered into an agreement to lease the land and Athlete Development Centre, including equipment, and sublease the field turf to the [redacted] The term of the lease is 20 years. The agreed-upon basic rent for the year ending April 30, 2014 is $2,100,000 per annum, for the year ending April 30, 2015 is $2,200,000 per annum, and for the eight years from May 1, 2015 to and including April 30, 2023 is $2,600,000 per annum. The basic rent for the remaining ten year term from May 1, 2023 to April 30, 2033 is to be determined by mutual agreement. The [redacted] will pay all business and other taxes, cleaning and utility charges relating to the Athlete Development Centre.

During the year ended September 30, 2013, the Foundation recognized rent revenue $875,000 from the [redacted] This amount is included in due from related parties at September 30, 2013.

[redacted]

10. Related party transactions (continued):

(b) Office space sublease to the [redacted]

Effective October 1, 2011, the Foundation entered into an agreement to sublease office space to the [redacted] During the year ended September 30, 2013, the Foundation recorded a reduction in rent expense in the amount of $33,302 (2012 - $54,396) relating to amounts received from the sublease. The sublease contract ended in June 2013.

11. Financial risks:

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 [redacted] mortgage loan, promissory note payable to Global Charity Fund, and loans payable to [redacted] are due within the next two years, 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 accounts payable and accrued liabilities, interest and debt repayment obligations. The Foundation's ability to meet obligations depends on donations and lease revenue collections, and obtaining additional financing (note 1).

12. Subsequent events:

Subsequent to year end, the Foundation issued additional notes payable totaling $1,350,000 to a director of the Foundation. The notes are non-interest bearing, unsecured, and payable on demand with 90-days' notice.

On February 7, 2014, the Foundation issued a note payable to Almoner for $300,000. The note bears interest at a rate of 7% per annum, is unsecured, and due on May 20, 2014.