

December 27, 2017

**BY EMAIL**

City of Ottawa

110 Laurier Ave West, 5th Floor West, Ottawa, ON K1P 1J1

Attention: Gordon E. MacNair

Director, Corporate Real Estate Office

Corporate Services Department

Ottawa Public Library Board

120 Metcalfe Street Ottawa, Ontario

K1P 5M2

Attention: Danielle McDonald

Chief Executive Officer

Dear Sir:

**RE: Acquisition and leaseback of 191 Laurier Avenue West and 120 Metcalfe Street, Ottawa, Ontario, known as the Ottawa Public Library (Main Branch) and the Sir Richard Scott Building (the "Project")**

This letter of interest ("**Letter of Interest**") sets out the basis upon which (i) Outcore Equities Inc. and Slate Asset Management L.P., or affiliates thereof satisfactory to the City/OPL (collectively, the "**Purchaser**") is prepared to purchase the Project from the City of Ottawa (the "**City**") and the Ottawa Public Library Board ("**OPL**" and, collectively with the City, the "**City/OPL**"), and (ii) the City/OPL is prepared to lease-back a portion of the Project from the Purchaser.

Below is a description of the proposed sale/leaseback transaction which includes the background and rationale for the transaction, a transaction timeline, and the basic terms of the agreements required to effect the sale/leaseback transaction.

**1. Transaction Background**

The Project consists of two distinct components:

- (i) an office tower known as the "Sir Richard Scott Building" consisting of sixteen (16) floors (floors 4 – 19 of the Project) with an aggregate area of approximately 206,000 square feet, and a 3 level below grade parking garage (the "**Office Component**"); and
- (ii) a library known as the Ottawa Public Library (Main Branch) consisting of 3 floors (plus basement space) with an aggregate area of approximately 85,000 square feet designed and occupied for the specific purpose of a "public library" (the "**Library Component**").

The City and OPL together own freehold title to the entire Project and City/OPL occupies the Library Component for use as a public library.

The Purchaser owns leasehold title to the Office Component, the rights to which extend to June 30<sup>th</sup>, 2034, and leases the Office Component to multiple tenants/users (including the City/OPL).

The City/OPL currently occupies the 4<sup>th</sup> and 5<sup>th</sup> floor of the Office Component pursuant to a sublease with the Purchaser, which sublease will be terminated as part of the transaction described in this Letter of Interest and replaced by the Library Lease and the Office Lease, as described below.

Each of City Council and the Board of the OPL has recently approved a new library facility to be located at 557 Wellington Street, Ottawa, and the new library facility is expected to be completed for occupancy by December 31, 2023, at which time the City/OPL will no longer require the use of the Library Component (and ancillary part of the Office Component). Given the inherent uncertainty with the scheduling and completion of a large construction project, the City/OPL desires to maintain flexibility in connection with its use and occupancy of the Library Component (and ancillary part of the Office Component) and would also like to realise the value of the Project in the immediate future.

The terms set out in the Letter of Interest will provide the City/OPL with the desired flexibility in connection with the use of the Library Component and the operation of the public library, while allowing the City/OPL to immediately capitalise on the value of the Project.

## 2. **Definitive Agreements and Timeline**

Upon acceptance of this Letter of Interest, the Purchaser and City/OPL will negotiate (i) a formal agreement of purchase and sale (the "**Purchase and Sale Agreement**") pursuant to which the Purchaser will acquire the freehold interest in the Project on an as-is where-is basis, and (ii) a lease pursuant to which the City and/or OPL shall lease from the Purchaser the Library Component (the "**Library Lease**"), and (iii) a lease pursuant to which the City and/or OPL shall lease from the Purchaser the 4<sup>th</sup> and 5<sup>th</sup> floors of the Office Component (the "**Office Lease**"). The Agreement of Purchase and Sale, the Library Lease, the Office Lease, the VTB (as defined below) and such other agreements and instruments that may be required are hereinafter referred to as the "**Definitive Agreements**", which shall incorporate the material business terms set out in this Letter of Interest and other customary terms, all of which shall be on terms and conditions acceptable to each party, in their respective discretion.

The Purchaser acknowledges that both this Letter of Interest and the terms, conditions, execution and delivery of the Definitive Agreements by the City/OPL require compliance with its applicable laws, regulations, by-laws and policies, including that consent and approval be obtained from City Council and the Board of the OPL and nothing in this Letter of Interest shall alter, limit, impair or fetter their respective discretion in granting such consent and approval. If such consent and

approval is not granted, subject to Section 6(d), this Letter of Interest is null and void and/or if any Definitive Agreement has been executed conditional upon such consent and approval, it will be null and void.

The City and the OPL shall use reasonable efforts to obtain consent and approval from City Council and the Board of the OPL to this Letter of Interest and the terms, conditions, execution and delivery of the Definitive Agreements, and to negotiate the Definitive Agreements during the period commencing with the acceptance of this Letter of Interest and ending at 11:59:59 pm (Ottawa time) on May 11, 2018 (the "**Negotiation Period**"). It is the current intention of the City and of OPL to seek consent and approval from City Council and the Board of the OPL on or about May 10, 2018. If consent and approval is not obtained during the Negotiation Period notwithstanding the City and OPL's efforts, or if consent and approval from City Council and the Board of the OPL is withheld or not given during the Negotiation Period, the parties shall have to agree in writing on or prior to May 11, 2018 to the continuation of or any further extension to the Negotiation Period, failing which the Negotiation Period shall end and, subject to Section 6(d), this Letter of Interest is null and void and/or if any Definitive Agreement has been executed conditional upon such consent and approval, it will be null and void.

The purchase of the Project shall close on such date as the parties agree in the Definitive Agreements, provided that it is the intention to close not later than June 1, 2018.

Following closing, the City and OPL shall maintain the right to occupy and use the Library Component and the Office Premises (as defined below) during the times described below (with extension rights as described below) subject to the terms outlined in this Letter of Interest including Section 5(e)(ii).

Each party shall incur its own costs in respect of negotiating the Definitive Agreements.

### 3. **The Purchase and Sale Agreement**

- (a) **Due Diligence** – The Purchase and Sale Agreement shall be conditional upon the Purchaser conducting whatever searches, audits and reviews the Purchaser, in its sole, absolute and unfettered discretion, deems advisable with respect to all aspects of the proposed transaction and the Project, including, without limitation, physical, engineering and environmental audits, financial audits, review of title to the Project and all encumbrances, the likelihood of obtaining all necessary approvals for any contemplated improvements, and any other matters of interest to the Purchaser with respect to the Project, and the Purchaser shall have been satisfied, in its sole, absolute and unfettered discretion, with the results of all such searches, audits and reviews (the "**Due Diligence Condition**") during a period of up to thirty (30) days following the date of execution but which for greater certainty will end on or before and not extend past the Closing Date notwithstanding the date of execution ("**Due Diligence Period**").
- (b) **Closing Date** - The "**Closing Date**" will be not later than June 1, 2018.
- (c) **Purchase Price** - The "**Purchase Price**" shall be Twenty Million Dollars (\$20,000,000) payable in the following manner:

- (i) a refundable deposit of Five Hundred Thousand Dollars (\$500,000) shall be paid to the City/OPL's solicitors in trust on execution and delivery of the Purchase and Sale Agreement and shall become non-refundable upon the waiver or expiry of the Due Diligence Condition;
- (ii) the sum of Nine Million Five Hundred Thousand Dollars (\$9,500,000.00) subject to customary adjustments shall become due and payable on the Closing Date; and
- (iii) the balance of the Purchase Price, being Ten Million Dollars (\$10,000,000.00), shall be credited on the Closing Date as a vendor takeback loan (the "VTB") secured by a registered first ranking charge on the Project and all existing and after acquired personal property forming part of the Project. The VTB shall be a fully open loan facility, interest free, and shall mature at the end of the Term of the Library Lease (as may have been extended). The Purchaser shall not grant any further charge, whether or not subordinate to the security granted in connection with the VTB, on the Project or existing and after acquired personal property forming part of the Project, other than a purchase money security interest to a secured party that finances all or part of an acquisition of such personal property on credit, up to a maximum amount of \$500,000 for one such purchase money security interest or \$1,000,000 for the aggregate of all purchase money security interests.

The Definitive Agreements shall provide that if the Purchase Price is not paid by the Purchaser when required, the City/OPL shall be entitled to exercise all rights and remedies available to City/OPL at law or in equity (as opposed to recourse being limited to the Deposit).

#### 4. **The Library Lease**

- (a) **Leased Premises** – The leased premises shall consist of the entire Library Component.
- (b) **Parties** – If required, the City may assign its interest in and/or sublet all or part of the Library Component to the OPL provided the City shall not be released from its obligations to the Purchaser.
- (c) **Net Lease** - The Library Lease shall be, subject to agreed upon life cycle expenses discussed below, a completely carefree and triple net lease to the Purchaser, and the Landlord shall not be responsible during the Term for any costs, charges, expenses or outlays of any nature whatsoever in respect of the Library Component. The City shall pay the cost of all repairs, maintenance, taxes, utilities, insurance and all other costs, expenses, payments and outlays applicable to the Library Component. The City will use commercially reasonable efforts and to the extent available, during the Term of the Library Lease, to designate and maintain the Library Component as a Municipal Capital Facility such that no realty tax is payable in connection with the Library Component. For greater certainty, however, the City shall be responsible for any and all realty taxes which may become due or payable in connection with the Library Component.
- (d) **Term** –

- (i) The “**Term**” will commence on the Closing Date and, subject to any extensions, will end on December 31, 2023 (the “**Original Term**”). Provided the City is not in default, the City shall have two (2) options to extend the Term as follows:
    - A. Following the Original Term, the City may extend the Term for one (1) six (6) month period, meaning that Term would end on June 30, 2024 (the “**First Rent Payable Extension**”).
    - B. Following the First Rent Payable Extension, the City may extend the Term for one (1) six (6) month period, meaning that Term would end on December 31, 2024 (the “**Second Rent Payable Extension**”).
  - (ii) The City must provide the Purchaser with a minimum of six (6) months’ written notice in order to exercise any of its extension rights.
  - (iii) In addition to the extension rights, the City may, on or before either or both of January 1, 2022 and January 1, 2023 provide the Purchaser with written notice that all of the dates set out in this Section for the Term, the Original Term, the First Rent Payable Extension and the Second Rent Payable Extension are amended to be six (6) months later, meaning that the Term could end as late as June 30, 2025 if one such notice is given or December 31, 2025 if both such notices are given, and all extensions are exercised.
- (e) **Rent** – Rent shall be payable as follows:
  - (i) For the Original Term, One Dollar (\$1) per year (on a pro rata basis).
  - (ii) During the First Rent Payable Extension, One Hundred and Fifty Thousand Dollars (\$150,000) per month; and
  - (iii) During the Second Rent Payable Extension, Three Hundred Thousand Dollars (\$300,000) per month.
- (f) **City Obligations** – The City shall during the Term, at its own cost and expense, maintain, repair and make all replacements in accordance with a schedule to be agreed to between the parties, such schedule to form part of the Definitive Agreement, in respect of the Library Component and its appurtenances, fixtures, equipment and contents, and shall, at the end of the Term, peaceably surrender and yield up the Library Component in the condition and state of repair required to be maintained by the City during the Term.
- (g) **Life Cycle Costs** – The City and the Purchaser will agree to a schedule, such schedule to form part of the Definitive Agreement, of life cycle costs to be included in the Library Lease, with each party being responsible for a proportionate share of the costs of each life cycle component, based on the current operation and maintenance of the public library in the Library Component, the age and condition of the Project, the nature and duration of the City’s tenancy during the Term, the anticipated significant redevelopment of the Library Component following the Term, and other relevant factors.
- (h) **Parking** – The City/OPL will have use of the parking garage to service the Library Component throughout the Term on the same basis as is currently enjoyed by the

City/OPL, on terms and conditions to be agreed to by the parties during the Negotiation Period, provided that (i) City/OPL will not be responsible for any operation, maintenance, repair, or life cycle costs related to the parking garage; and (ii) not less than forty (40) parking spots will be reserved and available for use by City/OPL in connection with the Library Component.

## 5. The Office Lease

- (a) **Leased Premises** – The leased premises shall consist of the (i) the space currently occupied by the City of the 4<sup>th</sup> floor of the Office Component (the “**4<sup>th</sup> Floor Premises**”) and (ii) the space currently occupied by the City of the 5<sup>th</sup> floor of the Office Component (the “**5<sup>th</sup> Floor Premises**”). The 4<sup>th</sup> Floor Premises and the 5<sup>th</sup> Floor Premises hereinafter referred to collectively as, the “**Office Premises**”).
- (b) **Parties** – If required, the City may assign its interest in and/or sublet all or part of the Office Premises to the OPL, provided the City shall not be released from its obligations to the Purchaser.
- (c) **Two Leases** – There shall be a separate lease for each of (i) the 4<sup>th</sup> Floor Premises (the “**4<sup>th</sup> Floor Lease**”); and (ii) the 5<sup>th</sup> Floor Premises (the “**5<sup>th</sup> Floor Lease**” and collectively with the 4<sup>th</sup> Floor Lease, the “**Office Lease**”). However, each lease shall include a cross default provision in favour of the Purchaser, such that a default under the 4<sup>th</sup> Floor Lease shall be deemed to be a default under the 5<sup>th</sup> Floor Lease, and vice versa.
- (d) **Gross Leases** – Other than the Rent payments, if any, set out below, the City shall not be responsible for any costs and taxes associated with its ordinary use and occupancy of the Office Premises. In other words, the City shall not pay any of the costs typically included as “operating costs” in an office lease. The City will use commercially reasonable efforts and to the extent available, during the Term of the Office Lease, to designate and maintain the Office Premises as a Municipal Capital Facility such that no realty tax is payable in connection with the Office Premises. For greater certainty, however, the City shall be responsible for any and all realty taxes which may become due or payable in connection with the Office Premises.
- (e) **Term** –
  - (i) For the 4<sup>th</sup> Floor Premises, the original term will be the same as the Original Term of the Library Component (the “**4<sup>th</sup> Floor Original Term**”). Any exercise of the extension of the Term or the amendment of Term-related dates for the Library Component in Section 4(d) will automatically extend the term for the 4<sup>th</sup> Floor Premises (collectively, with the 4<sup>th</sup> Floor Original Term, the “**4<sup>th</sup> Floor Term**”).
    - A. In the event that an extension of the Term for the Library Component in Section 4(d) is not exercised, and provided the City is not in default, the City shall have two (2) options to extend the 4<sup>th</sup> Floor Term as follows:
      - I. Following the 4<sup>th</sup> Floor Original Term, the City may extend the 4<sup>th</sup> Floor Term for one (1) six (6) month period, meaning that 4<sup>th</sup> Floor

Term would end on June 30, 2024 (the "First 4<sup>th</sup> Floor Rent Payable Extension").

- II. Following the First 4<sup>th</sup> Floor Rent Payable Extension, the City may extend the Term for one (1) six (6) month period, meaning that 4<sup>th</sup> Floor Term would end on December 31, 2024 (the "Second 4<sup>th</sup> Floor Rent Payable Extension").

- B. The City must provide the Purchaser with a minimum of six (6) months' written notice in order to exercise any of its extension rights.

In addition to the extension rights, the City may, on or before either or both of January 1, 2022 and January 1, 2023 provide the Purchaser with written notice that all of the dates set out in this Section for the 4<sup>th</sup> Floor Term, the 4<sup>th</sup> Floor Original Term, the First 4<sup>th</sup> Floor Rent Payable Extension and the Second 4<sup>th</sup> Floor Rent Payable Extension are amended to be six (6) months later, meaning that the 4<sup>th</sup> Floor Term could end as late as June 30, 2025 if one such notice is given or December 31, 2025 if both such notices are given, and all extensions are exercised.

- (ii) For the 5<sup>th</sup> Floor Premises, the term will commence on the Closing Date and end on December 31, 2024. The Purchaser shall have the right to terminate the 5<sup>th</sup> Floor Lease at any time upon providing the City with sixty (60) days' prior written notice.

- (f) **Rent** – Rent shall be payable as follows:

- (i) For the 4<sup>th</sup> Floor Premises,

- A. One Dollar (\$1) per year for the 4<sup>th</sup> Floor Original Term (on a pro rata basis);
- B. During the First 4<sup>th</sup> Floor Rent Payable Extension, Ten Thousand Dollars (\$10,000) per month; and
- C. During the Second 4<sup>th</sup> Floor Rent Payable Extension, Twenty Thousand Dollars (\$20,000) per month.

- (ii) For the 5<sup>th</sup> Floor Premises,

- A. One Dollar (\$1) per year for the entire term up to December 31, 2024.

## 6. **General**

- (a) **Negotiation Period** - Although the City/OPL do not currently intend to actively solicit or encourage offers from third parties in respect of the Project during the Negotiation Period for a transaction similar to that described in this Letter of Interest, the Purchaser acknowledges that no exclusivity in respect of the matters described in this Letter of Interest, including the negotiation of the Definitive Agreements during the Negotiation Period, is created herein. For greater certainty, the foregoing is subject in all respects to

the exercise of discretion of by City Council and by the Board of the OPL contemplated in Section 2.

- (b) **Confidentiality** - The parties agree that all negotiations regarding the Project shall be confidential and shall not be disclosed to anyone other than the parties' respective legal counsel, internal staff, agents, consultants, in the case of the Purchaser, equity partners, and in the case of the City and OPL, to City Council and the Board of the OPL. The parties agree that no press or other publicity release or communication to the general public concerning the proposed transaction will be issued without the other parties' prior approval. Notwithstanding the foregoing, the Purchaser acknowledges and agrees that the City and OPL are each subject to the *Municipal Freedom of Information and Protection of Privacy Act* (Ontario) which may provide for access to and disclosure of information.
- (c) **Brokerage** - The parties acknowledge there are no brokers associated with the transactions.
- (d) **Non-Binding** - It is understood and agreed that this Letter of Interest is not a binding contract, but merely an expression of interest between the parties and is subject to, in the case of the City and OPL, the consent and approval in all respect of City Council and of the Board of the OPL, and the negotiation and execution of the Definitive Agreements during the Negotiation Period, failing which the parties shall have no obligations of any sort to one another and this Letter of Interest shall be null and void. Notwithstanding the foregoing, the parties shall be bound by the confidentiality provisions in Section 6(b) requirements in this Letter of Interest, which shall survive any termination or expiration.
- (e) **Acceptance** - If this Letter of Interest is acceptable to the City, please indicate by signing below and returning to the attention of the undersigned.

DATED this 27 day of December, 2017.

**OUTCORE EQUITIES INC.**

By:


  
Name: LUCAS MANUEL

Title: A.S.O.

I/We have authority to bind the Corporation

**SLATE ASSET MANAGEMENT GP INC., in its capacity as general partner of SLATE ASSET MANAGEMENT L.P.**

By:

  
Name: LUCAS MANUEL

Title: A.S.O.

I/We have authority to bind the Corporation



**ACKNOWLEDGEMENT**

The foregoing terms and provisions of this Letter of Interest are acceptable to the undersigned this

25 day of January, 2017/8.

**CITY OF OTTAWA**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

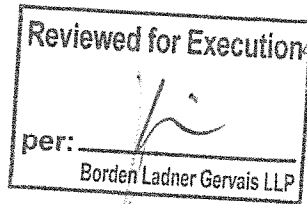
**Gordon E. MacNair, Director  
Corporate Real Estate Office**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

I/We have authority to bind the Corporation



**OTTAWA PUBLIC LIBRARY BOARD**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**D. McDonald  
DANIELLE McDONALD  
CEO, OPL**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

I/We have authority to bind the Corporation