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September 9, 2006

To: The Board of Governors of Exhibition Place

From: Dianne Young
General Manager & CEO

Subject: **Termination of Lease with Immersion Studios – Music Building**

Purpose:

This report updates the Board on the status of the lease with Immersion Studios Incorporated (“Immersion Studios”) for the Music Building.

Financial Implications & Impact Statement:

The termination of the lease with Immersion Studios on September 20, 2006, will result in a shortfall of \$16,660 to the 2006 Operating Budget for rent that will not be paid from October 1, 2006 to December 31, 2006, as budgeted.

Recommendations:

It is recommended that the Board:

- 1. Accept the termination of the existing month-to-month tenancy of Immersion Studios Inc.;**
- 2. Request City Legal to take all necessary action to protect the Board’s interests in this matter; and**
- 3. Request that Exhibition Place staff explore possible future tenants involved in the environmental field and report back to the Board.**

Background:

The present three-year agreement with Immersion Studios for the lease of Music Building expired May 31, 2006.

At its meeting in January 2006, the Board approved of a new three-year lease with Immersion Studios commencing June 1, 2006.

At its meeting of June, 2006 the Board approved of a recommendation to enter into a month-to-month lease agreement with Immersion Studios for a period not to exceed six months expiring December 31, 2006, or earlier on the terms and conditions of the present lease except for basic rent which will increase as outlined in the report then before the Board.

Discussion:

In 1997, the Board and the CNEA entered into a three-year lease with Immersion Studios to lease the Music Building as its permanent production studio and offices to produce new media interactive educational software. This lease agreement was renewed in 2000 and again in 2003.

While the asset ownership of Immersion Studios has changed over the 9 years of its occupation of the Music Building, Mr. Stacey Spiegel has continued to be the President and CEO throughout this time and directly involved in the day-to-day operations of the company. As reported to the Board in June, Immersion Studios was requesting a month-to-month lease because the Board of Directors of Immersion Studios was considering a sale of the company assets. However, the Board of Directors could not find an acceptable purchaser and on July 28, 2006, the Court ordered the winding up of the corporation pursuant to section 207 of the Business Corporations Act and the appointment of a liquidator of all the estate and effects of Immersion Studios Inc.

On receipt of the Court Order this matter was referred to the City Legal Department who are in contact with the legal counsel for the Liquidator. Counsel for the Liquidator advised that the intent at this point would be for the Liquidator to conduct a sale of assets of Immersion Studios Inc. following the CNE. The Board has received a letter from the Liquidator notifying the Board that the month-to-month Lease between the Board and Immersion Studios Inc. will be terminated effective September 30, 2006. Exhibition Place staff, with the assistance of City Legal, will take all necessary steps to recover all outstanding amounts owed to the Board by Immersion Studios Inc.

In addition, Exhibition Place staff will be considering possible future uses and tenancies for this building. These discussions must consider the capital costs of making the building fit for leasing either in the short-term or long-term. One of the major issues with this building is the roof which was never constructed to allow for full year occupancy. As a consequence, the roof has been leaking throughout Immersion's tenancy and is in a very poor state-of-repair at this point. The intent is for staff to analyze the cost of required capital repairs to the building and with this information prepare options for the Board's consideration.

However, staff believes that use of this building as offices has worked well on the site as it has had little or no impact on the many events that happen around the building and which activity will likely increase with the new soccer Stadium. Given the environmental mandate adopted by the Board, it may be very positive if we could find tenants who work in the environmental field to occupy these premises. Because of the historic nature of the Music Building and the Provincial Heritage Easement on this building, there can be little or no renovations to the interior of the building to allow for reconfiguration of the space.

Again, the intent would be for Exhibition Place staff to explore all these issues and report back to the Board.

Conclusion:

This report provides information to the Board on the state of the lease between Immersion Studios and the Board and proposes next steps for the use of the vacated Music Building.

Contact:

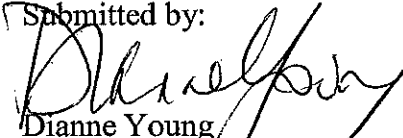
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Submitted by:



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