



PACIFIC NATIONAL EXHIBITION



Celebrating British Columbia

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I. Overview of the Pacific National Exhibition

The Pacific National Exhibition (PNE) was established in 1910 to showcase the best of British Columbia's agricultural and cultural activities to the world. In 1973 it was incorporated by the province of British Columbia under the *Pacific National Exhibition Incorporation Act* for the purpose of furthering the province's agricultural industries and promoting community development.

Our mandate

The mission of the PNE is to:

Enhance the Pacific National Exhibition's social and economic tradition of providing fun-filled memories for every guest by continuing to provide a premier entertainment and cultural destination.

To accomplish this strategic mission, the PNE follows its vision to:

- Continue to offer British Columbians year-round facility rentals, a seasonal amusement park and the annual summer Fair.
- Embrace our tradition of providing dazzling entertainment and fun-filled memories, and in doing so, set the standard for family entertainment in British Columbia.
- Become the hub of all social and cultural activities in Vancouver through obtaining a long-term relationship with the City of Vancouver.

The Pacific National Exhibition is driven by an underlying set of values and ethics that impacts all of its work:

1. Guest service and satisfaction are the reasons we are in business.
2. We provide the best entertainment value for our guests in a clean, safe, and fun environment.
3. We build on our history and tradition while creating our future.
4. We treat all individuals with honesty, fairness, dignity, and respect.
5. We are flexible, innovative, creative, and proactive.
6. We are committed to the growth and profitability of the organization.
7. We work together and support each other to achieve corporate and individual potential.
8. We are results-driven, externally focused, and continuously improving.
9. We act as a socially and environmentally responsible corporate citizen.

Our products and services

The Pacific National Exhibition works to meet its mandate through the operation of three business streams: its annual 17-day Fair, Playland Amusement Park, and year-round rental of facilities to a number of clients for community, social, ethnic, and commercial events.

The PNE operates from a 114-acre site at the City of Vancouver-owned Hastings Park, a multi-facility venue in Vancouver that allows it to build partnerships with both regional and international business and community groups.

Through its year-round operations on this site, the PNE contributes:

1. A venue that in 2002 hosted over 200 events, including trade and consumer shows, conventions, concerts, meetings, seminars, rallies, banquets, film and commercial shoots, agricultural shows and sporting events
2. Over \$139 million in direct and indirect economic spin-offs annually. This includes the equivalent of 3,517 full-time jobs, 90 % of which are located in the Vancouver Census Metropolitan Area, many of them providing much-needed summer employment for youths.
3. Nine acres dedicated to Playland and its 28 rides, entertainment, and special events
4. An affordable and safe environment for family entertainment
5. An annual \$2.8 million contribution to the City of Vancouver's Hastings Park site and building maintenance costs

The PNE's principle clientele continues to focus on youth and families in the Greater Vancouver area, but its client base extends beyond this area. The PNE is a unique facility in that it hosts events that appeal to all demographics including children, teens, adults and multicultural communities. Apart from visitors to Playland and the annual Fair, the PNE also serves a national and international clientele in film, concert production, sports and special events.

II. Message from the President & Chief Executive Officer

This year marked the 93rd year of the Pacific National Exhibition's operation with a vision to provide fun-filled memories to every guest by continuing to offer a premier entertainment and cultural destination. We continue to evolve, championing innovative entertainment programming, while maintaining our 93 year-old link to our agricultural roots.

The importance of the Exhibition within Vancouver and the greater community of the Lower Mainland and British Columbia was reaffirmed with high attendance at this year's annual Fair at the PNE, Playland and hundreds of on-site events.

The PNE's relevance to the business community has also been highlighted this year with the corporation providing facility rental to over two hundred different events, ranging from trade and consumer shows, concerts, and film shoots to the Vancouver Giants hockey team.

In keeping with our 2001 business plan, the corporation has been focusing on reducing the overall deficit and ensuring that profitability and cost efficiency is key to all business streams. The corporation achieved a \$515,002 net profit this year, a gain over nine times greater than last year's profit. This represents a continuation of the trend the corporation has shown towards steadily improving its financial situation since 2000.

The PNE does not receive an annual operating subsidy from government, and this year was no exception. We are proud to say we are continuing to operate self-sufficiently - one of the few fairs in North America that can make that claim.

Our financial progress was made despite the shadow of uncertainty hanging over the corporation regarding its ownership and location. After the 2001 Provincial Core Services Review of the PNE, we were instructed to explore a transfer of the corporation's ownership from the Province to the City of Vancouver. As of December 31, 2002, the City and the Province continue with positive discussions regarding the future ownership and operation of the corporation.

The Exhibition continues to provide substantial economic benefits to both the City of Vancouver and the Lower Mainland. As in previous years, the PNE contributed \$2.8 million to the maintenance of the Hastings Park site and buildings. This year, the PNE's annual economic impact was independently assessed at over \$139 million to the greater Vancouver area.

With the 100th anniversary of the corporation approaching, we remain committed to evolving so we can best serve our guests and clients. We continue to build the Exhibition's strength and believe we can create a lasting relationship with the City of Vancouver that will be mutually advantageous. The PNE's business-minded philosophy will continue to make this a viable corporation that benefits Greater Vancouver as well as British Columbia, both economically and culturally.

We are enthusiastic about future negotiations with the City of Vancouver for the transfer of the PNE to the City and believe that the Corporation's viability will increase once a long-term future for the Exhibition is determined.

Overall, 2002 was a successful year for the PNE, and I would like to take this opportunity to thank both the staff and management for their dedication to ensuring the Exhibition's success. I would also like to thank the 2002 Board of Directors for their many hours of service and dedication to the future of the PNE.

We look forward to continuing our long history as Vancouver's best loved cultural and event site.

A handwritten signature in black ink, appearing to read "Annette Antoniak".

Annette Antoniak

President and Chief Executive Officer
Pacific National Exhibition

III. The Year in Review

The Pacific National Exhibition generates revenue from three business streams: Playland Amusement Park, the annual 17-day Fair at the PNE, and year-round rentals of its buildings and facilities. The PNE's facilities attracted over two million visitors this year. The Corporation's combined economic impact was independently estimated at \$139.1 million.

A. Financial Review

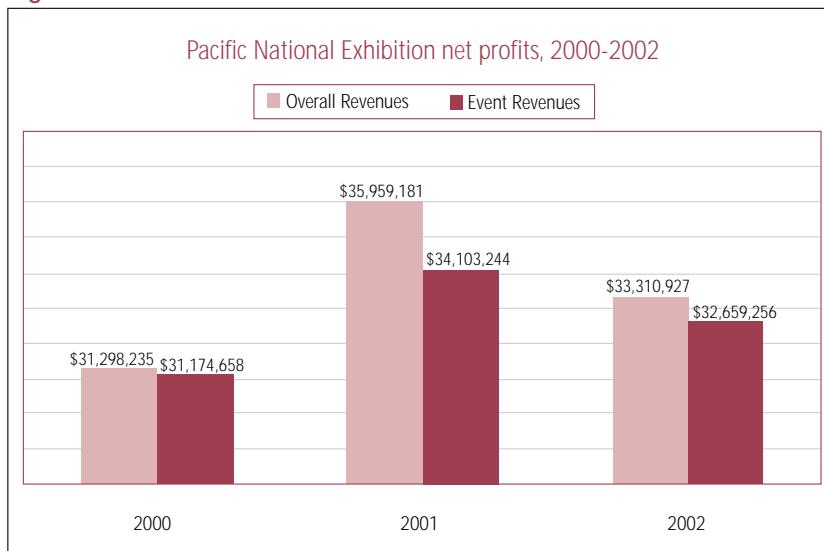
2002 financial results continue the trend of improving financial stability for the Pacific National Exhibition. The PNE realized a net profit in 2002 of \$515,002, a significant increase from the 2001 profit of \$56,465 (see Figure 3.1).

Figure 3.1



This improved profitability was achieved despite experiencing reduced revenues (see Figure 3.2) and a 2% wage increase for CUPE employees that was negotiated last year.

Figure 3.2



Management's orientation towards cost control reduced the PNE's operating expenses as a percentage of operating revenue to 93.55% in 2002 from 94.67% in 2001.

This continued improvement in the PNE's profitability is part of management's plan to eliminate its accumulated operational deficit over the next four years.

B. Events Review

The Pacific National Exhibition continues to offer the same quality family entertainment that its reputation is built on. This section briefly summarizes the 2002 performance of each of the corporation's three divisions. A more detailed discussion of their financial performances can be found in Section IV, Financial Results.

Playland Amusement Park

Playland was open this year between April 20 and September 29, and attendance was 6.9% higher than last year, at 280,068 visitors throughout the season. It continued to appeal to its core demographic of 9 - 18 year-olds. Revenues from Playland amounted to \$6.6 million for the season.

Playland offered over thirty rides and attractions during its Park Season and an additional six rides (including three brand new rides) during the Fair in 2002. This is in addition to its normal selection of rides, food vendors, and midway games:

Adult Rides	Children's Rides
Twin Flip*	Monkey Mayhem*
Canadian Springs Waterfall	Bumble Bee Bop*
Hellelevator	Stunt Cycle
The Revelation	Grand Prix
Hell's Gate	Flying Elephants
Wooden Roller Coaster	Kiddie Swing
Scooter	Paddle Wheelers
Drop Zone	Glass House
Corkscrew	Dune Buggies
Music Express	Helicopters
Wild Mouse	Dragon Coaster
Ferris Wheel	Raiders
Wave Swinger	Merry -Go-Round
Rainbow	
Scrambler	
Pirate	
Giant Octopus	
Enterprise	

* = new in the 2002 Fair

The Fair at the PNE

The Pacific National Exhibition's annual 17-day Fair was held from August 17 to September 2, 2002. It is one of the largest and best-attended tourist events in B.C., attracting 902,200 visitors this year. Based on attendance, the Fair is the second largest in Canada, and the fourteenth largest in North America. Over 62 million guests have attended it since it first began. The Fair generated \$20.17 million in revenues for the PNE this year.

Throughout the Fair, the PNE hosted a range of family-oriented entertainment from B.C. and Canada, with a focus on providing free or affordable shows to its guests. The PNE also continued the Fair's tradition of highlighting B.C.'s rich agricultural roots. Some of this year's highlights included:

Event	Description
Zydeco Jam*	A Mardi Gras-style musical procession and live stage show.
Lipizzaner Stallions*	World famous stallions performed equestrian art.
Farm country pavilion*	A tribute to the diversity of agriculture in British Columbia
Cirque Pop 2K2	A circus act that was the hit of the 2001 Fair.
Monster Motor Madness	A motorsport event featuring motorbike jumps and monster trucks
Eukanuba Superdogs	The 25th year of performances at the PNE by this troupe of entertaining canine athletes.
Dal Richards and his Orchestra	Dal Richards, a renowned big band leader, celebrated his 66th year of performances at the PNE.
Talent Search	A nightly search for youth, adult, and senior performing talents.
Nightly concerts	A wide range of performances from bands such as the Bee Gees to a Dolly Parton tribute artist.
Fire in the Night	A high-energy combination of lasers, pyrotechnics, and music featuring a live cast of 50 dancers and fire artists.
Prize Home Lottery	An annual tradition dating back to 1934, the grand prize winner of this draw receives a newly-built and designed home
4-H competitions	The largest 4-H competition in North America was held at the 2002 Fair at the PNE, with over 600 participants.

* = new in the 2002 Fair

Facility Sales

In addition to the annual 17-day fair and Playland, the Exhibition also rented out its facilities throughout the year to a number of community organizations and event and film producers. The corporation manages five buildings on the Hastings Park site: the Pacific Coliseum, Rollerland, the Garden Auditorium, the Forum, and the Agrodome. Together, the venues add up to 267,644 square feet, making the PNE B.C.'s largest venue for trade fairs and conventions, and accounting for a fifth of Vancouver's entire convention space.

2002 facility rental revenues were down compared to 2001, amounting to 12% less than budgeted. The corporation continued to aggressively market its facilities, but was impacted by the soft market for film business that Vancouver experienced in 2002.

Highlights from the 2002 Facility Sales department include:

- Trade shows, including the three-day Lordco Auto Parts show
- Concerts, including Britney Spears and Nickelback
- Special events such as the Slam City Jam Extreme Sport show
- Religious and community events representing a wide variety of ethnic and religious groups
- Sporting events such as the Vancouver Giants season (thirty-six home games), the B.C. Boys High School Basketball Championship tournament, and the Western Hockey League All-Star Game

IV. Financial Report

A. Management Discussion and Analysis

Financial status

2002 was a challenging year for the PNE, as management persisted with reducing the corporation's deficit while the uncertainty about the corporation's future ownership and location continued. Despite this, the Exhibition continued to improve its finances and demonstrate its profitability.

In 2001, PNE management reevaluated the company's corporate philosophy and reframed its focus on family entertainment to include an organization-wide commitment to cost containment. Part of that meant that the PNE now uses a budgeting process that focuses on:

1. Cost control
2. A "bottom up" budget to ensure commitment across the organization
3. Strengthened accountability systems to achieve budgeted results
4. Assessment of future capital asset investments based on quick payback business cases

This corporate transition is working, as 2002 marked a significant improvement in the PNE's financial outlook. The corporation's finances have been steadily improving since 1999, and the PNE is pleased to report a net profit of \$515,002 for 2002, up from a profit of \$56,465 in 2001, and a loss of \$622,995 in 2000.

Management has been dedicated to reducing expenses and creative in its cost-cutting solutions. The corporation invested in capital equipment to save on both maintenance and staffing costs.

Although overall revenues were down, and despite a 2% wage increase in the PNE's CUPE wage scale, management reduced operating expenses from 94.67% of events revenue in 2001 to 93.55% in 2002. Program activities and staff schedules were rationalized to achieve maximum operating efficiency. In addition, staffing levels were reduced across the company without resorting to significant layoffs; for example, by opening the annual Fair a half hour later daily to save on staffing costs.

Previously, increased amortization and operating costs related to the PNE's uncertain tenure, along with relocation costs, had contributed to an accumulated deficit. With a renewed focus on its finances in place, the corporation reaffirms its commitment to eliminating its accumulated deficit.

Location uncertainties

There are a number of outstanding uncertainties around the PNE's future operations that impact the Exhibition.

The PNE's long-term lease with the City of Vancouver for the Hastings Park site ended in 1994, and since then, it has been granted a number of short-term lease extensions. This year, Vancouver City Council approved an extension of the PNE's use of Hastings Park until December 31, 2003, but the agreement remains unsigned as at December 1, 2002.

In seeking a potential relocation site for the PNE, a subsidiary of the Exhibition had purchased land in Surrey, B.C. in May 2001 for \$19 million. The Province instructed the PNE to dispose of that land in November 2001, and the corporation consequently disposed of it in May 2002. Proceeds from the sale were used to pay off all liabilities associated with the acquisition of the property.

Furthermore, during the 2001 Core Services Review, the PNE was directed by the Province of British Columbia to explore a transfer of ownership to the City. As of December 31, 2002, the two parties had not come to an agreement.

Economic impact

Regardless, the PNE continues to contribute \$2.8 million annually towards the maintenance of the site and buildings at Hastings Park. In 2002, the PNE also committed to contributing \$100,000 annually towards repairs of the roof of the Coliseum building.

In 2002, the City of Vancouver commissioned an economic impact study of the Pacific National Exhibition from Pannell Kerr Forster Consulting Inc., a management-consulting firm with expertise in the Canadian hospitality and tourism industry. The study reported that the total economic impact of PNE operations is \$139.1 million annually, with the majority of those economic spin-offs being generated in the Vancouver Census Market Area.

The study also reported that the PNE continues to be a significant employer in the Lower Mainland, generating 3,517 jobs annually, which constitutes \$94.7 million in wages, the majority of which are also in the Vancouver area.

The Exhibition continues to operate with no annual operating subsidy from government. In addition, PNE operations are reported to generate \$61.9 million in tax revenue to provincial, federal and municipal governments annually.

One of the PNE's proudest accomplishments is its reputation for employing and training generations of young British Columbians. The PNE is one of B.C.'s largest youth employers, and continues to focus on providing transferable job skills in areas such as customer service, communications, hospitality, finance, warehousing, security, agriculture, and entertainment.

The Pacific National Exhibition's revenue is based on three different business streams: Playland Amusement Park, the annual Fair at the PNE, and year-round facility sales. The following will review the 2002 performance of each business stream.

Playland Amusement Park

Playland became a division of the Pacific National Exhibition in 1993. Starting out as Happyland in 1926, there has been a permanent amusement park operating at Hastings Park for over 75 years. Playland has been operating at its current 9-acre location since 1958, and currently consists of 28 rides, including 11 intended for children. It is recognized as one of the premier family entertainment destinations in the Lower Mainland and is a summer tradition for many families.

By all measures, Playland had a highly successful 2002 season. The amusement park was open from April 20 to September 29 and received 280,068 visitors throughout the season. Attendance was 6.9% higher than in 2001, and 9.82% higher than anticipated in the 2002 budget. Revenues for 2002 reflected this increase and amounted to \$6.6 million, which is 3.6% above 2001 levels, and 7.7% ahead of budget.

This increase in attendance can primarily be attributed to unusually favourable weather throughout the summer, as well as creative promotions that generated media and public awareness of Playland.

The 2002 economic impact study commissioned by the City of Vancouver indicated that Playland, along with the annual Fair at the PNE, contributed \$114.6 million in economic benefits to the region, the majority of which is concentrated in Vancouver.

Fair at the PNE

The Fair is a 17-day PNE tradition consisting of exhibits and demonstrations, as well as family entertainment and performances.

Visitors to the 2002 Fair paid an \$8 general admission fee for access to the Fair's many exhibits and live entertainment, as well as food and game stalls. This year's Fair included some of its traditional acts, such as big band leader Dal Richards and his orchestra, but also introduced some new entertainment intended to appeal to the Fair's core family demographic.

The 2002 Fair at the PNE showed no revenue growth against the 2001 season, bringing in \$20.17 million in revenue for the PNE, which was 6.3% below budget.

Attendance was marginally down because the Fair normally achieves 30% of its overall attendance on its final weekend. This year's inclement weather drastically effected attendance on Labour Day.

As part of the annual Fair, the PNE holds a lottery that helps provide general revenue for the Exhibition, as well as support non-revenue producing attractions such as agricultural events. The grand prize is a package that includes a newly built and designed home, along with furniture, property, and a number of other giveaways. In 2002, the Fair also gave away 20 vehicles as secondary lottery prizes. The prizes are provided through corporate sponsorships.

In 2002, the Prize Home Lottery drew over 170,000 entries, amounting to revenues of \$4.26 million. This figure represents a 10% increase from the 2001 lottery revenue, putting the 2002 lottery at 1.2% ahead of budget.

Facility Sales

Facility Sales is a year-round business stream operated by the Pacific National Exhibition. It is responsible for renting PNE facilities to clients for film shoots, trade shows, performances, and a number of other purposes. Overall, PNE operation is recognized as having a \$24.5 million annual impact on British Columbia.

In 2002, the PNE hosted 1,070 event days, compared to 1,800 in 2001. This reduction in activity was reflected in 2002 revenues, which totalled \$5.3 million, well below the \$6.1 budgeted.

The PNE continues to market itself aggressively as the home of flexible, well-managed, and reasonably-priced venues. However, in 2002, the PNE was impacted by a significant reduction in concert activity, and by the province-wide drop in the film production industry. In 2002 the PNE budgeted for \$931,000 in film revenue, but brought in \$640,263.

PNE management worked throughout 2002 to position itself to take advantage of the recovery in the concert and film industries that is expected in 2003.

B. Report of Management's Responsibility for Financial Statements

The Pacific National Exhibition Incorporation Act requires that the PNE table an annual report containing information about the corporation's performance. The information in this 2002 annual report has been prepared and presented using guidelines recommended by the B.C. Crown Agencies Secretariat.

PNE management prepares the following financial statements and related information and is responsible for their integrity. The statements were prepared using Canadian generally accepted accounting principles. The statements include amounts based on management's estimates and judgments. We believe that these statements represent fairly the PNE's current financial position.

Management is also responsible for the accuracy and completeness of the information presented in the PNE's annual reports. To fulfil this responsibility, management maintains financial and management control systems and practices that provide reasonable assurance the information is accurate and complete. PNE officials who have provided the information contained in the 2002 annual report have verified its completeness and accuracy.

Our independent auditors, BDO Dunwoody LLP, have audited the financial statements using Canadian generally accepted auditing standards, to the extent necessary to form an independent opinion on the financial statements prepared by management.



Annette Antoniak
President & CEO

May 26, 2003



Jeff Garrad
*Vice President, Finance &
Administration*

May 26, 2003



BDO Dunwoody LLP
Chartered Accountants

600 Park Place – 666 Burrard St.
Vancouver, BC
Canada, V6C 2X8
Telephone: (604) 688-5421
Telefax: (604) 688-5132

Auditors' Report

To the Directors of the Pacific National Exhibition

We have audited the Statement of Financial Position of the Pacific National Exhibition as at December 31, 2002 and the Statement of Changes in Net Assets, Operations and Cash Flows for the year then ended. These financial statements are the responsibility of the Exhibition's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Exhibition as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Pacific National Exhibition Act, we report that, in our opinion, these principles have been applied on a consistent basis.

The comparative figures were reported upon by another firm of chartered accountants.

Chartered Accountants

Vancouver, British Columbia
February 20, 2003

Pacific National Exhibition
Statement of Financial Position
As at December 31, 2002

2002 2001

Assets

Current

Cash (Note 5)	\$109,712	\$89,235
Accounts Receivable (Note 7)	757,499	3,317,937
Inventories	567,642	557,604
Prepaid Expenses	35,005	93,889
Land Held for sale (Note 2)		20,577,761
	<u>1,469,858</u>	<u>24,636,426</u>
Property, plant & equipment (Note 3)	5,656,419	6,378,940
	<u>\$7,126,277</u>	<u>\$31,015,366</u>

Liabilities and Net Assets

Current Liabilities

Overdraft	\$ -	\$31,370
Accounts Payable & accrued liabilities	2,468,368	2,752,678
Bank Loans (Note 4)	2,460,000	24,908,089
Deferred Revenue	158,861	236,194
Current portion of obligations under capital leases (Note 6)	2,268,864	1,243,253
	<u>7,356,093</u>	<u>29,171,584</u>
Deferred contributions (Note 5)	390,387	710,123
Obligations under capital leases (Note 6)	2,449,471	4,718,335
	<u>10,195,951</u>	<u>34,600,042</u>

Net Assets

Net assets invested in property, plant & equipment	598,767	-203,536
Unrestricted net assets (deficiency)	<u>-3,668,441</u>	<u>-3,381,140</u>
	<u>-3,069,674</u>	<u>-3,584,676</u>
	<u>\$7,126,277</u>	<u>\$31,015,366</u>

Going concern assumption (Note 1)
Commitment (Note 9)
Outstanding Lawsuits (Note 10)

Approved by the Board of Directors

Director

Director

Pacific National Exhibition
 Statement of Changes in Net Assets
 For the year ended December 31, 2002

	2002		2001
	Invested in property, plant, & equipment	Unrestricted	Total
Net assets - Beginning of year	(\$203,536)	(\$3,381,140)	(\$3,584,676)
Excess (deficiency) of revenue over expense for the year	-1,245,252	1,760,254	515,002
Purchase of property, plant and equipment with unrestricted funds	804,303	-804,303	0
Principal payments under capital leases	<u>1,243,252</u>	<u>-1,243,252</u>	0
Net assets - End of year	\$598,767	(\$3,668,441)	(\$3,069,674)
			(\$3,584,676)

Pacific National Exhibition
Statement of Operations
For the year ended December 31, 2002

<u>Revenue</u>	2002	2001
Events	\$32,659,256	\$34,103,244
Province of British Columbia contributions	10,500	17,500
Amortization of deferred contributions	319,823	620,800
Other (Note 7)	321,348	1,217,637
 <u>Total Revenues</u>	 33,310,927	 35,959,181
 <u>Operating Expenses</u>	 30,552,835	 32,285,366
 <u>Operating Earnings</u>	 2,758,092	 3,673,815
 <u>Other Expenses</u>		
Amortization	1,562,595	2,598,908
City of Vancouver (Note 9)	100,000	150,000
Interest - Bank Loans	180,247	290,491
Interest - Capital Leases	397,768	484,691
Loss on disposal of property, plant, & equipment	2,480	93,260
 <u>Total other Expenses</u>	 2,243,090	 3,617,350
 <u>Excess of revenue over expenses</u>	 \$515,002	 \$56,465

Pacific National Exhibition
Statement of Cash Flows
For the year ended December 31, 2002

	2002	2001
<u>Cash flows from operating activities</u>		
Excess of revenue over expenditures for the year	\$515,002	\$56,465
Items not affecting cash		
Amortization	1,562,595	2,598,908
Amortization of deferred contributions	-319,823	-620,800
Loss on disposal of property, plant & equipment	2,480	93,260
	<hr/>	<hr/>
Net change in non-cash working capital items	1,760,254	2,127,833
	<hr/>	<hr/>
	2,249,540	-1,877,156
	<hr/>	<hr/>
	4,009,794	250,677
<u>Cash flows from financing activities</u>		
Increase (decrease) in bank loans	-22,448,089	22,428,089
Principal payments under capital leases	-1,243,253	-912,041
	<hr/>	<hr/>
	-23,691,342	21,516,048
<u>Cash flows from investing activities</u>		
Sale (purchase & development) of land	20,575,950	-20,577,761
Sale of assets	2,498	
Net purchase of property, plant & equipment	-845,053	-1,165,503
	<hr/>	<hr/>
	19,733,395	-21,743,264
Increase in cash	51,847	23,461
Cash - Beginning of year	57,865	34,404
Cash - End of year	\$109,712	\$57,865

Pacific National Exhibition

Summary of Significant Accounting Policies
December 31, 2002

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenditures for the reporting period of the statement of operations. Actual results could differ from those estimates.

Inventories

Inventories consist of stores, plush toys, food and beverages, and are valued at the lower of cost or net realizable value. Cost is determined by the average cost method.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization.

The Exhibition amortizes its assets on a straight line basis to estimated salvage values over the remaining term of the Operating Agreement, which expires on December 31, 2003. Management has estimated total salvage values to be \$3,780,000 (2001 -\$3,780,000).

Deferred revenue

Advertising revenue for long-term contracts are recognized on a straight line basis over the term of the related contract. Deferred revenue also comprises deposits for events that are not recognized in revenue until the event is held.

Revenue recognition – contributions

The Exhibition follows the deferral method of accounting for contributions. Contributions are recorded as revenue when received or receivable except when the donor specified that they are intended for use in a future period, in which case they are deferred. Contributions are recognized when receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Contributions received to fund property, plant or equipment acquisitions and improvements are deferred until the specified expenditures are incurred. These contributions are recognized as revenue on the same basis as the related property, plant, or equipment, or improvements are amortized.

Financial Instruments

The Exhibition's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, overdraft, and bank loans. Unless otherwise noted, management is of the opinion that the Exhibition is not exposed to significant interest, currency, or credit risk arising from these financial instruments. Fair values of these financial instruments approximate their carrying values.

Pacific National Exhibition

Notes to Financial Statements

December 31, 2002

1. Nature of Operations and Going Concern

These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern. The use of such principles may not be appropriate because, as of December 31, 2002, there are a number of uncertainties with respect to the future operations of the Pacific National Exhibition (the "Exhibition").

The Exhibition was incorporated by the Province of British Columbia (the Province) under the Pacific National Exhibition Incorporation Act of British Columbia for the purpose of furthering agricultural and other industries, and promoting community development. The Exhibition is a not-for-profit entity and, accordingly, no income tax provision or related accounts are presented in these financial statements. The Exhibition operates on a site (Hastings Park) owned by the City of Vancouver (the "City").

In 2002, City Council approved an extension of the Exhibition's use of Hastings Park, in the form of an Operating Agreement (the Agreement) which as at December 31, 2002 remains unsigned. The significant terms of the Agreement are as follows:

- The term of the Agreement will be for four years commencing January 1, 2000 and terminating December 31, 2003.
- The City will continue to restore Hastings Park during the term of the Agreement.
- The Exhibition will pay an operating fee to the City of \$1 per year.
- The Exhibition will pay for the maintenance and operating costs associated with the premises.
- The City will contribute to the maintenance of Hastings Park only in those years where the Exhibition incurs an operating loss as defined in the Agreement. The City's annual contribution will be equal to the lesser of \$300,000 or the amount of the operating loss incurred in the year. The definition of operating loss under the Agreement is still under discussion and no recovery was recorded for the years ended December 31, 2002, 2001, or 2000.

During 2001, the Province conducted a Core Services Review of the Exhibition and directed the Exhibition to explore the possibility of transferring ownership of the Exhibition from the Province to the City. As at December 31, 2002, the City and the Province had not reached an agreement and were engaged in discussions regarding the future ownership and operation of the Exhibition.

The uncertainty surrounding the future operations and ownership of the Exhibition has meant that management has been unable to effectively estimate with any degree of certainty, the amount, if any, of shutdown costs. Accordingly, no provision has been made in these financial statements for shutdown costs. The ultimate cost, if any, cannot be determined until the future and format of the Exhibition is determined.

As at December 31, 2002, the Exhibition had a working capital deficiency of \$5,886,235, and a net asset deficiency of \$3,069,674.

Pacific National Exhibition

Notes to Financial Statements

December 31, 2002

1. Nature of Operations and Going Concern - Continued

The Exhibition's ability to continue as a going concern depends on its ability to generate operating profits in the near future, continued support from the Province, renewal of its banking facilities, determination of its future ownership including a possible sale to the City or another party, and its ability to remain at the current site.

These financial statements do not reflect any adjustments to the carrying value of assets and liabilities, the reported revenues and expenses and balance sheet classifications used that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

2. Land Held For Sale

On May 25, 2001 a wholly owned subsidiary of the Exhibition purchased land in Surrey, British Columbia. During the prior year the subsidiary capitalized \$1.58 million of costs in relation to developing this property including \$606,000 of interest. In November 2001, the Province directed the Exhibition to dispose of the land.

On May 17, 2002 the Exhibition completed the sale of the subsidiary to the Province for \$21 million, which equaled the carrying value at the date of the sale.

3. Property, Plant and Equipment

	2002	2001		
	Cost	Accumulated Amortization	Net	Net
Machinery, furniture and equipment	\$3,773,959	\$2,960,618	\$813,341	\$480,411
Playland rides and equipment	6,575,068	5,291,274	1,283,794	1,559,961
	10,349,027	8,251,892	2,097,135	2,040,372
Playland rides under capital lease	7,195,703	3,636,419	3,559,284	4,338,568
	\$17,544,730	\$11,888,311	\$5,656,419	\$6,378,940

Pacific National Exhibition

Notes to Financial Statements

December 31, 2002

4. Bank Loans

The Exhibition has the following credit facilities with a Canadian chartered bank:

	2002		2001	
	Available	Outstanding	Available	Outstanding
Operating line	\$12,000,000	\$2,460,000	\$12,000,000	\$5,215,000
Land acquisition			22,433,000	19,693,089
Seasonal operating line	-	-	3,000,000	-
	\$12,000,000	\$2,460,000	\$37,433,000	\$24,908,089

The operating line bears interest at the bank prime rate. A general security agreement covering all assets and undertakings of the Exhibition has been provided as security for the operating line. Additionally, the Province has provided a guarantee for the \$12 million operating line.

The land acquisition loan was used to finance the purchase of land (Note 2), and was paid with the proceeds from the sale of the subsidiary in May 2002.

The seasonal operating line was eliminated in 2002, as management determined that it was no longer required.

The guarantee by the Province of the Exhibition's bank loans includes the amount of any letters of credit outstanding. Letters of credit outstanding totalled \$45,000 as at December 31, 2002.

5. Deferred Contributions

During 2000, \$1,437,000 was received from the Province to fund capital upgrades and improvements to the Exhibition's facilities. Of this amount \$18,758 was spent in 2002 (2001 - \$1,029,446, and 2000 - \$318,319) on specified projects. The unspent balance of \$70,477 is recorded as restricted cash, in a separate bank account and will be utilized in future years.

	2002	2001
Balance - Beginning of year	\$620,888	\$212,242
Add: contributions used to acquire property, plant & equipment	38,251	1,029,446
Less amounts amortized to revenue	(319,823)	(620,800)
	329,316	620,888
Add: Unspent Funds – Included in Cash	70,477	89,235
Balance end of year	\$390,387	\$710,123

Pacific National Exhibition

Notes to Financial Statements

December 31, 2002

6. Obligations Under Capital Leases

The future minimum lease payments under capital leases are as follows:

Year ending December 31	
2003	\$2,561,981
2004	761,313
2005	<u>1,950,087</u>
	<u>5,273,381</u>
Less: Amount representing interest	(555,046)
Principal Obligation	4,718,335
Less: Current Portion	<u>(2,268,864)</u>
	<u>\$2,449,471</u>

Interest rates on capital leases average 7.27% annually.

The capital leases provide that at the end of the respective lease terms, the Exhibition is required to either extend the term of the lease, purchase the asset based on a pre-determined option price, or return the asset to the lessor and pay the lessor any shortfall between the fair value of the asset upon return and the pre-determined residual value.

The above lease schedule of lease payments assumes that the purchase options are exercised at the end of the lease term.

7. GST Recovery

During 2001, the Exhibition reviewed its previously filed GST returns for the previous four years. As a result of this review, the Exhibition re-filed its GST returns and in 2002, received a one time net refund of \$1,217,637 from the Canada Customs and Revenue Agency. This amount is included in other revenue and accounts receivable in the prior year.

8. Pension Plan

The Exhibition and its employees contribute to the Municipal Pension Plan (the Plan), a jointly trusted pension plan. The board of trustees, representing plan members and employers, is responsible for overseeing the management of the Plan, including investment of the assets and administration of the Plan. The pension plan is a multi-employer contributory defined benefit pension plan with about 126,000 active contributors.

Pacific National Exhibition

Notes to Financial Statements

December 31, 2002

8. Pension Plan - Continued

Every three years an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of the Plan funding. The most recent valuation as of December 31, 2000 indicated funding surplus of \$436 million. The joint Trust Agreement specifies how surplus assets can be used. The actuary does not attribute portions of the surplus to individual employers.

Contributions by the PNE to the Plan in fiscal 2002:

	2002	2001
Employee	\$366,545	\$354,674
Employer	364,050	352,116
Total	\$730,596	\$706,790

9. Commitment

During 2000, the City agreed to repair the roof of the Coliseum building on the understanding that the Exhibition would contribute to the costs associated with the work. The Exhibition and the City have agreed that, subject to formal documentation and subject to the use of the Coliseum during the period by the Vancouver Giants WHL hockey team, the Exhibition will contribute to these repairs. During the year ended December 31, 2001, the Exhibition accrued \$150,000 and has committed to paying a further \$100,000 in 2002.

10. Outstanding Lawsuits

Various lawsuits and claims are pending by and against the PNE. It is the opinion of management that final determination of these claims will not materially affect the financial position of the PNE. Any ultimate settlements will be recorded in the year the settlements occur.

V. Corporate Governance

Board of Directors

Douglas Callbeck, Chair

Steven Hollett

Christopher Nelson

Senior Management Team

Annette Antoniak (President and CEO)

Michael MacSorely (Vice President, Operations)

Jeff Garrad (Vice President, Finance and Administration)

Michael McDaniel (Vice President, Human Resources)

Peter Male (Vice President, Facility Sales)

Corporate Governance Practices

The Pacific National Exhibition is a provincial Crown corporation. The company's business affairs are the responsibility of the Board of Directors, a provincially appointed body. The PNE's Board of Directors is committed to ensuring its corporate governance practices are open and effective, and that the Board is fully accountable.

The Board discharges responsibility of day-to-day operations by holding accountable management that reports to the Board. The staff is led by the President and CEO, who in turn selects and oversees the rest of the management team.

The Board recognizes the need for, and encourages management, under the direction of the CEO, to make clear and appropriate executive decisions.

The Pacific National Exhibition's Board of Directors assumes responsibility for the stewardship of the corporation.



Pacific National Exhibition
P.O. Box 69020
Hastings Park
Vancouver, BC V5K 4W3
www.pne.bc.ca