

2004/5



 **Pacific National Exhibition**
ANNUAL REPORT

TABLE OF CONTENTS

	PAGE
I. Overview of the Pacific National Exhibition	3
A. PNE Mission	4
B. PNE Values	4
C. PNE Activities	5
II. Message from the Chair of the Board of Directors	6
III. Message from the President and Chief Executive Officer	7
IV. 2004 & 2005 – Years in Review	8
A. Organizational Highlights	8
Playland Amusement Park	8
The Fair at the PNE	10
Facility Sales	12
Public Park	13
In the Community	14
Charitable Contributions	15
Heritage	15
Sustainability	16
Industry Involvement	16
City of Vancouver Public Consultation Process	17
V. Financial Report	18
A. Financial Review	18
B. Economic Impact	19
C. Report of Management's Responsibility for Financial Statements	20
VI. Corporate Governance	21
VII. Auditors' Report on Financial Statements, 2004	23
VIII. Financial Statements, 2004	24
IX. Significant Accounting Policies Used, 2004	28
X. Notes to Financial Statements, 2004	30
XI. Auditors' Report on Financial Statements, 2005	35
XII. Financial Statements, 2005	36
XIII. Significant Accounting Policies Used, 2005	40
XIV. Notes to Financial Statements, 2005	42

I. OVERVIEW OF THE PACIFIC NATIONAL EXHIBITION

The Pacific National Exhibition (PNE) is a non-profit registered charity and since its inception in 1910, has been owned by the Provincial Government of BC. In 1973, the organization 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. In 2003, the PNE continued to exist with the addition of the PNE Enabling and Validating Act. The PNE remained under BC Provincial ownership until January 1, 2004, at which ownership of the PNE was assumed by the City of Vancouver. December 31, 2005, brings to a close the first two fiscal years of PNE operation under City of Vancouver ownership. This annual report will divert from standard format to detail the activities, operational and financial results of a two-year period, from January 1, 2004, through Dec 31, 2005.



Since it was established in 1910, the PNE has helped to shape the history of Vancouver, through its mandate of showcasing the best of British Columbia's agricultural and cultural activities to the world and through the range of events and celebrations held on site over the past nine decades. No single location in Vancouver has captured the spirit and history of this City, its people and its many achievements as well as the PNE. For more than nine decades, millions of guests have enjoyed shows, exhibits, sporting events, community events, amusement rides, concerts, cultural activities and of course, the annual summer Fair at the PNE. Today, the PNE remains the largest employer of youth in British Columbia. It is also the longest running and best attended event in British Columbia and the site of hundreds of famous milestone events - from early live performances by Elvis and the Beatles to the historic Miracle Mile. Over the decades, the PNE has showcased the best of Vancouver to the rest of Canada and to the world.

The PNE continues to grow as a vibrant and dynamic organization dedicated to providing over three million visitors a year with first-class cultural, sporting, and family entertainment events, as well as access to a beautiful and active public park. The PNE has become the premier entertainment destination of British Columbia and operates from a 114-acre site at Hastings Park, a multi-facility venue and park that allows the PNE to build partnerships with community groups as well as regional and international businesses. This is done through a variety of activities such as the annual summer Fair, Playland Amusement Park, year-round venue rentals, and a public park which are all utilized to celebrate a variety of community, social, cultural, ethnic, and commercial events throughout the year. These activities and the PNE Mission allow the organization to remain at the centre of tradition, celebration, and affordable family entertainment in Vancouver.

A. PNE MISSION

The mission of the PNE is to enrich the quality of life at Hastings Park by providing family entertainment that invites our guests to celebrate Vancouver's heritage, culture, and diverse communities in a vibrant urban public park.

The PNE is driven to embrace our tradition of providing a place to visit, celebrate, and experience family entertainment and fun-filled memories, and in doing so, set the standard for family entertainment in British Columbia.

B. PNE VALUES

The PNE achieves this mission through an underlying set of values that impacts every aspect of its commitment to the guests we serve:

1. We will strive for excellence, always.
2. We will remain industry leaders by providing the best entertainment value for our guests in a clean, safe, and fun environment.
3. We will build on our history and tradition while creating our future.
4. We will treat all partners, employees, and guests with integrity, fairness and respect.
5. We are committed to the growth and sustainability of the organization and the Hastings Park site.



C. PNE ACTIVITIES

The PNE remains Vancouver's place to celebrate by being the hub of social, community and cultural activities in Vancouver. This is a result of the many activities that occur on site which can be summarized as follows:

THE FAIR AT THE PNE

The first Pacific National Exhibition Fair took place in 1910 and today remains the biggest and best-attended event in British Columbia – widely known as the “High-light of Summer”. Each year almost a million visitors enjoy the hundreds of live show performances, exhibits, rides, games, food and attractions that make up the annual Fair at the PNE, an end of summer tradition for generations of British Columbians. Fair entertainment is diverse: from children's programming, to shows for tweens, teens, young adults, families and seniors... there really is something for everyone to enjoy.

Based on attendance, the Fair at the PNE is the second largest Fair in Canada, and the 14th largest in North America. Over 64 million guests have attended the Fair since it first began in 1910.

PLAYLAND AMUSEMENT PARK

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 15-acre location since 1958 and is recognized as one of the premier entertainment destinations in the Lower Mainland and is a summer tradition for many youth and families.

A recent addition to the programming of Playland is Fright Nights, a themed Halloween event established in 2003. Fright Nights targets guests over 12 years of age and typically runs for 2-3 weeks ending on Halloween. The event is made up of amusement rides as well as several haunted house attractions that are professionally designed to celebrate this popular event.



YEAR-ROUND FACILITY RENTALS

In addition to Playland and the Fair, the PNE also rents the on-site venues throughout the year to a number of community organizations, sporting associations and event producers. These venues include the six buildings that the organization manages on the Hastings Park site: the Pacific Coliseum, Rollerland, the Garden Auditorium, Forum, Agrodome and the Livestock building. Together, the facilities add up to 267,644 square feet of available space, making the PNE British Columbia's largest venue for community and sporting events, multicultural shows, trade fairs and conventions, concerts, and film shoots.

PUBLIC PARK

In 1889 Hastings Park was granted by the Provincial Government to the City of Vancouver for use by the public. In 1910 the Pacific National Exhibition (then called the Vancouver Exhibition Association) had its first Fair on this historic site. Since then, the PNE has been the main steward of this Public Park responsible for the care and maintenance of the grounds and facilities excluding the traditional boundaries of the Hastings Race Course which has an independent agreement with the City of Vancouver, and Empire Field, including its perimeter, that are now under the care and maintenance of the Vancouver Park Board. The Park has several distinct areas and gardens that are accessible to the immediate and city-wide community to enjoy year round: Momiji Gardens, Italian Gardens, and the Sanctuary.



II. MESSAGE FROM THE CHAIR OF THE BOARD OF DIRECTORS

The City of Vancouver on January 1, 2004, assumed ownership of all Pacific National Exhibition assets and responsibility to manage the operations. This was pursuant to the Pacific National Exhibition Validating and Enabling Act passed by the Provincial Legislation in the fall of 2003.

In December 2003, City Council appointed a Board of Directors as required by the legislation, to govern the organization. Also, City Council invited various community and business groups to appoint representatives to sit as an Advisory Committee to the Board.

In early 2004, City Council directed staff to begin a public consultation process to ascertain the future of Hastings Park and the PNE. This process concluded with a report to Council in June 2004 and Council provided a clear mandate to continue the traditional 95-year-old summer Fair, Playland, Amusement Park and year-round facility rentals. The next phase is for more detailed design work on options and a governance review. This work will proceed over the next couple years.

In the first two years of operation, the Board focussed not only on delivery of a financial viable operation but expanded public use of the site. For example, 762 metres of fencing was removed to improve site access, Playland rides which were at the end of their useful life were replaced, maintenance on existing buildings increased, and most importantly maintenance on the entire grounds increased.

On behalf of the Board of Directors, I would like to thank the Advisory Committee members for their advice and in particular all PNE staff for their dedication to the operations of the PNE in Hastings Park.



Brent MacGregor
Chair – Board of Directors
Pacific National Exhibition

III. MESSAGE FROM THE PRESIDENT & CHIEF EXECUTIVE OFFICER

These two years marked the 94th and 95th year's of a Vancouver tradition and the first two year of ownership by the City of Vancouver. The annual Fair at the PNE, Playland and hundreds of year-round on-site events were once again successful with almost three million people visiting Hastings Park annually. Whether it was for trade and consumer shows, community, cultural and religious events, concerts and film shoots, Vancouver Giants hockey games, or simply to visit the public park, Hastings Park was once again an active and vibrant location for millions of Vancouverites and British Columbians.

The PNE has continued on the path to ensure sustainability of the organization through prudent fiscal spending and cost efficiency across all activity streams. In 2004, the organization achieved a net operating surplus of \$589,215, which was our fourth year of returning a positive bottom line. In 2005, the organization far exceeded budget and achieved a net operating surplus of \$2,105,442, making 2005 one of our best on record. It is significant to note that the PNE does not receive an annual operating subsidy from government as other like organizations do across North America and the world.

Unlike past years, there is now more certainty regarding ownership and tenure at Hastings Park, yet there is still some specifics to be decided regarding the future. This increased certainty has further helped the PNE plan for the future and continue 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 care and operations of the Hastings Park site and buildings. In 2002, the PNE's annual economic impact was independently assessed at over \$139 million to the Greater Vancouver area, and in 2004, based on another report completed during the consultation process, the PNE's economic impact was projected at now between \$202 and \$236 million.

With the 100th anniversary of the organization approaching in 2010, we remain committed to evolving so we can best serve our guests and clients throughout the immediate and greater communities for all uses within Hastings Park. We continue to build the PNE's strength and sustainability, and with the City of Vancouver ownership we continue to pursue operations that are mutually advantageous. The PNE's business-minded and community-minded philosophy will continue to make this a viable organization that benefits Greater Vancouver as well as British Columbia, both economically and culturally.

The 2004 and 2005 years were very successful for the PNE, and I would like to take this opportunity to thank all of the dedicated and hard working staff that have pulled together year after year to make this great organization successful. I would also like to thank the Board of Directors for their many hours of service and dedication to the future of the PNE.

Together, we look forward to continuing our long history of enriching the quality of life at Hastings Park by providing family entertainment that invites our guests to celebrate Vancouver's heritage, culture, and diverse communities in a vibrant urban park.



Michael McDaniel
President and Chief Executive Officer
Pacific National Exhibition

IV. 2004 & 2005 - YEARS IN REVIEW

On January 1, 2004, ownership of the PNE officially transferred to the City of Vancouver. During the transfer and transition period that followed, the PNE continued to thrive and its activities attracted almost three million visitors annually to the venues, park and events hosted on site. Throughout 2004 and 2005, the PNE continued to generate revenues from three of its main activities on site: the annual summer Fair, Playland Amusement Park and year-round rentals of its buildings and facilities at Hastings Park. In 2004, the PNE demonstrated its financial strength despite severe weather challenges. In 2005, the PNE significantly surpassed the budgeted target posting one of the strongest financial years on record and continued to demonstrate its resilience and agility for a strong and sustainable future. 2004 and 2005 contained many organizational highlights, some financial and others which showcase the PNE's success in meeting its mission of providing a diversity of social, community and cultural entertainment within a vibrant urban public park.

A. ORGANIZATIONAL HIGHLIGHTS

1. PLAYLAND AMUSEMENT PARK

Playland sits on 15 acres at Hastings Park and currently has 32 rides and attractions including 18 adult rides and 14 rides for smaller children in KidsPlayce, a zone for three to ten year olds.

In the fall, Playland hosts Fright Nights, a Halloween event targeted at 12 to 35 year olds in the Lower Mainland. Overall, Playland continues to show growing appeal to its core demographic of 12 to 29 year olds, while also showing increased growth in the family market.

2004

Playland was open for 91 operating days between April 24 and September 26, 2004 and total attendance for the season was 318,818 visitors, up by 10.4% from 2003. Gross revenues from Playland exceeded budget by 12% and amounted to \$9.058 million, up from \$7.38 million in 2003. Corresponding gross contributions for Playland were \$4.65 million, up from \$3.44 million in 2003. The park also saw 5,642 adult season passes sold, a 9.8% increase from 2003 as well as 570 junior season passes, a 3% increase from 2003.

Highlights of 2004 included the introduction of two replacement attractions in KidsPlayce (Kettle Creek Mine Coaster and Pirate Adventure) as well as one adult replacement ride (Crazy Beach Party) which were all introduced to replace aging attractions and to minimize increasing maintenance costs and ride down time.

In addition to an extremely successful Playland season, Fright Nights entered its second year in 2004. Fright Nights was open for 17 operating days between October 8 and October 31 and generated an additional 40,517 visitors. Although visits were slightly lower than projected, this can be attributed primarily to a higher than average number of rain days during this outdoor event.



2005

In 2005, Playland extended its regular summer season through the first weekend in October and was open for 102 operating days between April 23 and October 2, 2005. Total attendance for the 2005 season was 298,477 guests, ahead of budget by 1.7%. Gross revenues were \$9.97 million, up 5.9% from 2004, and gross contribution was \$3.51 million. Season pass sales continued to grow with 6,095 passes sold in 2005, an 8% increase from 2004. Junior season passes also climbed with 918 passes sold, a 61% increase from 2004 and a reflection of Playland's continued growth in the family market.

Highlights of 2005 also included the addition of two adult replacement attractions (Breakdance and The Gladiator)



which were introduced to minimize the increasing maintenance costs and down time of two aging rides which were retired. As well, Playland saw an increased focus on off-site ticket sales through a dramatic expansion in retail channels from 57 outlets in 2004 to 224 in 2005. As well, Fright Nights grew dramatically in 2005 taking in 63,947 guests and resulting in gross revenues of \$1.35 million. This is a 58% increase in attendance and a 69.4% increase in gross revenues over 2004. Continued success of Playland will rely upon investment in site equipment and initiatives such as a revitalized games line, painting of several attractions, buildings and the roller coaster station, as well as the installation of a replacement food stand with improved décor.

2. THE FAIR AT THE PNE

The annual 17-day summer Fair continues to be the largest ticketed event in British Columbia hosting a range of family-oriented entertainment and highlighting British Columbia's rich agricultural roots. Over 64 million guests have attended the Fair since it first began in 1910 and 2005 marked both its 95th anniversary and the largest entertainment expansion in over 25 years.

2004

In 2004, the PNE Fair attracted 767,481 visitors between August 21 and Sept 6, 2004, down from 901,474 in 2003. The Fair also generated \$18.121 million in gross revenues, down from \$21.6 million in 2003. Gross contribution was \$5.78 million, down from \$8.16 million in 2003. All these 2004 figures were lower than projected primarily as a result of receiving an unprecedented 14 days of rain and severe weather during the 17-day Fair and the challenge of limited covered area for guests.

Throughout the Fair, the PNE hosted a range of family-oriented entertainment with a focus on providing free or affordable shows to its guests. There were all the traditional favourites such as the PNE Prize Home, Superdogs, Dal Richards, Festival Square community stage, 4-H Agricultural Festival, and the crowd favourite nightly finale, Bring on the Night. Along with those favourites, the 2004 Fair included several new shows and attractions:

CITY RHYTHM - An energetic dance show that celebrates all that is Vancouver. From its west coast lifestyle to the diverse people that make up our vibrant City.

URBAN METAL DERBY - Motorsport action with team-based competition.

URBAN CHANGE PAVILION - Features displays on the changing face of Vancouver and the principals of sustainability.



2005

The 2005 year was a strong one for the Fair and although the 17-day event still had five days of rain, attendance was 903,467, an increase of 17.7% from 2004. Gross revenues were \$21.5 million, an increase of 16.4% over 2004 resulting in a gross contribution of \$5.70 million.

The 2005 Fair also marked the 95th anniversary of the PNE and to celebrate, the Fair was launched with an opening day celebration which included a variety of promotional events, special shows and 25th anniversary concert by the well-known Canadian band Loverboy in addition to the regular mix of the daily entertainment. The second day of the Fair celebrated the 20th anniversary of Vancouver's sister city relationship with Guangzhou, China. 2005 also

marked the largest expansion of new Fair programming in PNE history including the following examples:

MILLER DRIVE – Re-opening of this historic drive to Fair goes through animated displays i.e. collector car clubs, International Sandsculpting competition and Lego display.

PNE CELEBRATION PARADE – A colourful, moving family adventure complete with dancers, giant inflatables and outrageous costumes.

SANCTUARY TOURS – Naturalists tour the Sanctuary at Hastings Park to educate guests on the flora and bird species that have returned to this habitat.

CITY ARTS – A celebration of Vancouver's arts and culture community highlighting the unique festivals that can be experienced through the Lower Mainland each year.

MONSTER MURALS – Celebration of community art where families and kids can come paint giant murals designed specifically to celebrate the PNE and Vancouver.

KIDS FESTIVAL – New area in Festival Square dedicated to kids play with inflatables and face painting.



In addition to the investment in new programming and footprint expansion to accommodate traffic flows, highlights of the 2005 Fair included an aggressive expansion of retail ticket channels resulting in 53% growth in the number of outlets where tickets were available. This resulted in \$3.78 million gross retail ticket sales, an increase of over 600% versus 2004. The PNE also saw growth in online ticket sales with a 300% increase compared to 2004.



PNE PRIZE HOME LOTTERY PROGRAM

As part of the annual Fair, the PNE also holds a lottery that helps provide general revenue for the PNE, as well as support non-revenue producing attractions such as agricultural events and free family entertainment shows. The grand prize includes a newly-built and designed home, along with furniture, property, and sport boat. There are also early bird prizes and a series of vehicles to be awarded as secondary prizes. Prizing is provided through a combination of purchase agreements and corporate sponsorships.

In 2004, the Prize Home Lottery drew over 155,000 entries, amounting to revenues of \$3.88 million. Due to excessive rain during the Fair when many prize home tickets are purchased on site, these lottery revenues were lower than 2003 (\$4.20 million) and 2002 (\$4.17 million). In 2005, the Prize Home Lottery drew over 178,844 entries, amounting to revenues of \$ 4.47 million, a growth of 11% over 2004.

3. FACILITY SALES

Apart from visitors to Playland and the annual Fair, the PNE also serves a national and international clientele in community and cultural events, concert production, sports, consumer shows, and film through its portfolio of year-round facility rentals.

2004

In 2004, the PNE hosted 1,178 event days, compared to 1,793 in 2003 and 1,070 in 2002. While venue sales are influenced by fluctuations in the economic trends affecting industries such as film and concerts, the PNE management has worked to develop long-term strategies to balance facility activities against these uncertainties. In 2004, facility rental revenues were ahead of budget by



44.4% and up 1.75% from the previous year, amounting to \$7.83 million. Corresponding gross contribution for facility sales was \$3.58 million in 2004, down from \$3.7 million in 2003 and up from \$2.3 million in 2002. Highlights of 2004 included an extremely strong sports event season due to the Vancouver Giants success during the NHL lockout and strong showing in the play-offs. The PNE also hosted a variety of additional sporting events such as AAA B.C. Boys High School Basketball Championship tournament, charity hockey games & WWE. The music industry experienced healthy activity resulting in an increase of 62% in the number of concerts and 38% increase in overall concert attendance in 2004. As well,

the PNE hosted five trade shows and a range of religious and community events such as Cirkids circus school, Canada Day at Hastings Park, a number of Ismaili & Indo Canadian cultural events and a visit by the Dalai Lama.

2005

The 2005 year was another exceptional year for facility rentals resulting in 1,817 event days booked, a 54% increase over 2004. Gross revenues in 2005 were \$11.33 million with a gross contribution of \$4.65 million. Despite the affect of the rising Canadian dollar on the filming market in Canada, filming revenues for 2005 rose to \$849,697, \$135,000 more than 2004 and \$350,000 ahead of the 2005 budget. Concert activity for 2005 was also strong with 150,793 concert guests, almost triple the number budgeted for 2005 and resulting in gross revenues being \$806,711 ahead of budget.

Sporting activities included the annual AAA B.C. Boys High School Basketball Championship tournament and support for the Vancouver Giants remained high with impressive play-off showings. Gross revenues from the Vancouver Giants in 2005 were ahead of budget by \$1.14 million gross and net revenues ahead by \$583,265. The 2005 year also brought the IIHF 2006 World Junior Hockey Championships to the Pacific Coliseum. In preparation for these games the PNE, City of Vancouver, and VANOC worked together to accelerate one of the 2010 Olympic upgrades with the installation of almost 16,000 new seats into the Pacific Coliseum. In addition to the tournament games, there was a Fan Fest component that saw a variety of events in the Forum, Rollerland and Agrodome venues. This entire event was truly world class and the PNE site was showcased to more than 116,554 fans that attended the games at the Pacific Coliseum. Additional highlights in 2005 included the introduction of Disney on Ice at the Pacific Coliseum as well as a range of community events including Canada Day at Hastings Park, Cirkids, Chinese New Year and eight Ismaili & Indo Canadian cultural events.

4. PUBLIC PARK

The PNE has proudly been at the heart the Hastings Park site since the organization's inception in 1910. While there have been a number of changes to the organization and the park site over the years, some things have remained consistent. The PNE continues to be the primary steward in maintaining the building facilities on site as well as maintaining all the trees, statues, benches, park equipment, lawns and the gardens throughout the site with the exception of the race track and Empire field and its perimeter. Each year, the PNE contributes millions of dollars (\$2.8 million in 2004 and \$3.1 million in 2005) from its revenues to ensuring the park remains well taken care of for the community to enjoy year round. Hastings Park covers some 162 acres and includes a beautifully landscaped public park area for the community to enjoy year-round. The PNE has specially trained horticultural teams on staff to ensure that the Italian gardens, Momiji gardens, and the Sanctuary remain in their naturally intended states.

Care of the facilities and grounds is a regular budgeted expense and is paid for in full from the operating revenues generated through the revenue generating activities of the PNE. Specific enhancements in 2004 included removal of all non-required fencing, removal of all excess parking barricades and bumper blocks, the opening of public washrooms at the North West corner of the sanctuary from dawn until dusk, and the implementation of a semi-weekly site inspection management program to draw management attention to all site issues that require repair, maintenance or attention. In addition to basic maintenance of the grounds and gardens,

the PNE has continued to proactively initiate improvements to buildings and facilities, graffiti removal and garbage pick-up while also continuing to build and improve partnerships with community organizations ensuring the long-term sustainability for Hastings Park.

GARDENS AND RESTORED PARK AREAS:

The Park has several distinct areas and gardens that are accessible to the immediate and City-wide community to enjoy year round.

MOMIJI GARDENS:

Completed in 1993, these gardens were constructed at Hastings Park because of the site's history in the Japanese-Canadian internment process during World War II. This garden is accessible from several areas of the site. Care and maintenance of this area includes regular removal of invasive plants, pruning and shaping of the traditional Japanese trees and plants, cutting the flat grass area, maintaining the shape of the crushed limestone pathways, and cleaning the interior of the reflection pool in the centre of the garden. The PNE continues

to work in consultation with local Japanese gardeners to ensure the gardens are maintained properly.

ITALIAN GARDENS:

This 2.5-hectare section officially opened in 2000 and has several unique design aspects including fountains, statues, several planted gardens, a children's play area, and a skateboard park. In addition, a basketball court and a general sport court was also built along side this area. The PNE continues to care and maintain these gardens year

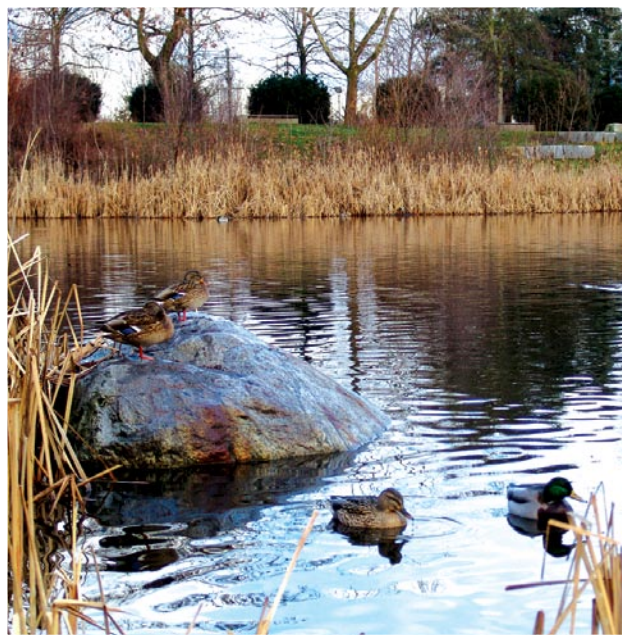


round by removing graffiti on the concrete areas, repairing parts of the children's play area, and regular weeding and pruning of the planted areas.

SANCTUARY:

The Sanctuary, completed in 1999, was designed as a natural landscape surrounding with two ponds of water, one large and one small. This area is in its sixth year of development, growth has progressed well and the PNE staff continue to maintain it in its originally intended "natural" state. The Sanctuary continues to be part of the Fair footprint, and in 2005 the PNE offered naturalist tours of the area, touring more than 1,800 visitors.

The PNE remains committed to removing barriers and providing an inviting and open public park site for the community to enjoy year round.



5. IN THE COMMUNITY

The years of 2004 and 2005 marked a period of very positive building at the PNE in the area of community outreach and the PNE initiated many activities in support of local schools. This included wide ranging initiatives such as hosting the local area Terry Fox Run at Hastings Park, contributing financially to the Hastings Elementary school hot lunch program, supporting the purchase of new school computers, sponsoring local school events such as the Franklin Walk-A-Thon, hosting Templeton High School's Community Payback program and meeting with local elementary schools to discuss the involvement and support of the PNE in their future programs. The PNE also provided local elementary school students with tickets to a variety of PNE events in addition to providing free Fair admission tickets annually to all elementary school children across British Columbia, a tradition at the PNE since the 1940s.

The PNE also contributed to local Community Associations. Activities included support of Hastings Community Little League through ticket donations for all players, hosting the Provincial Little League tournament picnic and providing the association with indoor practice facilities. In 2004 and 2005, the PNE also provided financial and planning expertise for Hastings Park Canada Day Celebrations and supported local after school care programs through ticket donations and fundraising event sponsorship. In addition, the PNE has made the Agrodome ice surface available to community associations at rates equal to those offered by Vancouver Parks and Recreation facilities. The ice is used by local minor hockey and skating clubs for more than 82 hours per week.

The PNE also proudly contributed to a variety of community and business projects. In addition to expanding the PNE

ticket donation program to support initiatives such as “Our Community Story Project” community team building project and the North Hastings Business Improvement Associations Annual Street Hockey Tournament. The PNE provided subsidized facility rentals to over 15 non-profit & community groups totaling more than \$400,000 in savings to these groups in each of 2004 and 2005. The PNE also developed the Miracle Mile bursary program to support local amateur athletes, as well as developed and published a quarterly neighbourhood newsletter. The PNE also initiated two significant new programs during the 2005 annual Fair, the “Neighbourhood Clean up Crew” and “Neighbourhood Bike Patrol” to ensure a safe clean community for residents during the largest Fair in British Columbia and on other peak event nights at Playland.

6. CHARITABLE CONTRIBUTIONS

The PNE is committed to giving back to the local and surrounding communities through the use of its resources to support charitable fundraising. In 2004 and 2005, the PNE supported a number of local charities through fundraising efforts on site and through ticket donations to the Kids Up Front charity which helps underprivileged children and families attend events such as Playland, concerts, shows, and hockey games held at the PNE. In total 1,450 individuals attended events through this program and in 2004 alone the PNE proudly hosted the launch of the Vancouver Kids Up Front charity in Playland.

The PNE also donated hundreds of Playland passes to over 250 different charitable, community, educational, and sport groups each year. Additionally, the PNE designated three days of the 2004 and 2005 Fair as “Charity Days” where management worked with charity partners to help raise funds on site to support BC Cops for Cancer (2004), CKNW Orphans Fund (2005), Raise-A-Reader (2004 and 2005), and Variety, the Children’s Charity

(2004 and 2005).

As well, each year the PNE holds a Charity Auction during the Fair to raise funds for a key charity very close to the PNE. In 2004 and 2005, the PNE committed Auction proceeds to support the BC Youth in Agriculture Foundation, an organization that represents the roots of what the PNE was founded upon, showcasing British Columbia agriculture to the world.

Each year there are a number of additional charitable organizations the PNE supports through their activities on site such as hosting the Orphan’s Fund Annual Picnic and collecting donations for Basics for Babies and the Vancouver Food Bank.

7. HERITAGE

The PNE is committed to preserving the history and heritage of the Hastings Park site. In 2004, the PNE planned a reinvestment into several heritage structures on site and this included consideration of the Forum Building (1931), Rollerland (1931), the Agrodome, (1963) and the Garden Auditorium (1940). Each building has a spectacular history on site and the PNE has been the primary steward of these facilities since each was constructed. Maintenance, landscaping, repairs, cleaning and painting costs are covered through revenues generated by PNE events and activities.

In 2005, the PNE worked with the City of Vancouver and Heritage consultants to begin developing a plan for the painting and refurbishment of these facilities. Utilizing this plan, the PNE has embarked upon a strategy to invest hundreds of thousands of dollars from PNE revenues into improvements and restoration of these buildings. Preparation of the Rollerland building started in 2004 and exterior repairs and painting followed in 2005. Preparation and painting of the north exterior face of the historic livestock barns occurred in 2005. Preparation of the Forum building began in 2005 with plans for exterior repairs, window replacement and paint in 2006. Continued growth and financial

success of the PNE will enable ongoing improvements and investments in the site's heritage structures.

8. SUSTAINABILITY

The PNE is also committed to continuing to implement principals of sustainability throughout its activities. The PNE has taken several steps in this regard. For example, both the 2004 and 2005 PNE prize homes have incorporated renewable, recyclable, durable and non-toxic materials from local and recycled sources. Secondary prizes have included hybrid vehicles. Since 2000, all PNE prize homes have included solar panels, reclaimed wood floors, in-floor radiant heating, recycled rubber roofs, Hardie siding, Trex decking (recycled plastic & sawdust), low emission paint, recycled carpets, and a water reclamation system to name just a few of their sustainable features.

Fair programming initiatives such as the Urban Change Pavilion were introduced in 2004 to provide exhibit opportunities on the principals of sustainability and included attractions such as the sustainable condo project and environmentally sustainable products such as smart cars. In addition, a site wide recycling program was introduced in 2005 in partnership with the Salvation Army whereby 150 new recycling bins were introduced into the Pacific Coliseum, Fairgrounds and Playland amusement park. All recyclables are collected on site and donated to the Salvation Army who utilizes proceeds to provide funding for Vancouver-based community programs.

The PNE utilizes paper saving office equipment and is committed to exploring and implementing sustainable products and practices wherever possible.



Prize home utilizing sustainable and renewable cork flooring

9. INDUSTRY INVOLVEMENT

Due to the diversity of PNE operations, the company is in the unique position to cross over a variety of different industries. Whether it is traditional industries of tourism or more unique industries of Fairs or Amusement Parks, the PNE strives to stay on the cutting edge to ensure continued success. This is accomplished through staying actively involved in networking and maintaining membership regionally and internationally in a variety of associations, such as Tourism British Columbia, Tourism Vancouver, Vancouver Board of Trade, International Associations of Amusement Parks and Attractions (IAAPA), Western Fairs Association (WFA), and the Canadian Association of Fairs and Exhibitions (C.A.F.E.). As well, the PNE management team researches a number of other fairs, parks, attractions and events annually and attends conferences and research trips whenever possible.

10. CITY OF VANCOUVER PUBLIC CONSULTATION PROCESS

The Vancouver Exhibition Association (VEA) was founded in 1907 and has, since 1910, operated an annual Fair in Hastings Park as well as served as the primary steward of the grounds and building facilities on site. For 30 years, the PNE operated as a provincial Crown Corporation (1973-2003) and leased a portion of the Hastings Park site from the City. In March 2003, after a core service review, the Province entered into an agreement with the City of Vancouver for the transfer of the PNE operation to the City effective January 1, 2004.

Upon taking over PNE ownership on January 1, 2004, the City of Vancouver embarked on a Public Consultation Process to help define the future of the PNE and its tenure on the Hastings Park site. In June 2004, following this City-wide public consultation process, Vancouver City Council heard from delegates and reviewed a series of options for the future of Hastings Park and the PNE, directing staff to explore and further develop an approach between Option 3 and Option 4 as described in a staff report dated May 6, 2004 “Hastings Park/PNE – Four Approaches for the Future”. This Approach ensures an ongoing role for the annual 17-day summer Fair, for a seasonal amusement park and for the year-round operations of the site - all within the context of the “greening” of Hastings Park. A planning process to scope out the details of this new approach is now underway with a final Master Plan scheduled for completion in 2010. The tenure resulting from this process has allowed the PNE to plan for the future and make strategic investment into the site and operations which will continue to support its ongoing financial stability.



V. FINANCIAL REPORT

MANAGEMENT DISCUSSION AND ANALYSIS

A. FINANCIAL REVIEW

In both 2004 and 2005, the PNE maintained a strong orientation toward efficiency and cost control while also growing the organization's revenue opportunities and improving financial position.

2004

Notwithstanding 14 days of extensive rain during the organization's largest annual outdoor event and ongoing uncertainty about the organization's tenure on the Hastings Park site, 2004 was still a strong financial year for the PNE. Despite the challenges, management continued to reduce the organization's deficit while continuing to improve the PNE's financial position. The organization's financial success can be demonstrated by the growing revenues generated through Playland and year-round facility rentals in 2004 and despite much lower than expected Fair revenues, the organization still achieved its fifth consecutive year of net operating surplus. Overall in 2004, the organization achieved \$7.825 million gross revenues from year-round events, \$18.121 million gross revenues from the Fair, and \$9.058 million gross revenues from Playland. In total, gross revenues for the company were \$35.532 million with net operating surplus of \$589,215.

2005

In 2005, the PNE had an exceptional year financially, posting one of its best years in its history. This was a result of a balanced framework across all activity streams that helped to ensure the overall success of the organization in 2005.

Overall, capital expenditures stayed on track throughout the year on a total capital budget of \$2.277 million. Overall, the organization achieved \$11.333 million gross revenues from year-round events, \$21.496 million gross revenues from the Fair, and \$9.970 million gross revenues from Playland. In total, gross revenues for the company were \$43.637 million with net operating surplus of \$2.015 million.

The results of 2004 and 2005 continue to show the PNE's strong trend of improvement in financial stability. The organization provided an operating surplus for the last five consecutive years \$2,015 million in 2005, \$589,215 in 2004, \$3,069 million in 2003, \$515,002 in 2002, and \$56,465 in 2001 (see Figure 3.1). The PNE also continued to grow gross revenues through strategic development of revenue-producing activities with the following results: \$39.867 million in 2005, \$35.532 million in 2004, \$36.975 million in 2003, \$32.976 million in 2002, and \$34.093 million in 2001 (see figure 3.2). Management continues to be dedicated to growing revenues and being creative with efficiencies while maintaining an organization-wide commitment to cost containment through budgeting processes that focus on:

- Cost control
- A "bottom up" budget to ensure commitment across the organization
- Investments in revenue growth opportunities
- Strengthened accountability systems to achieve budgeted results
- Assessment of future capital asset investments based on quick payback business cases

FIGURE 3.1
Pacific National Exhibition
Operating Surplus/Deficit 1999-2005

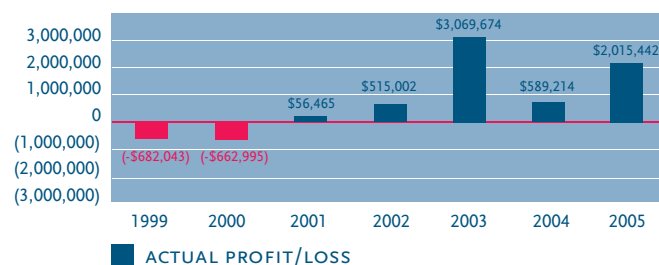
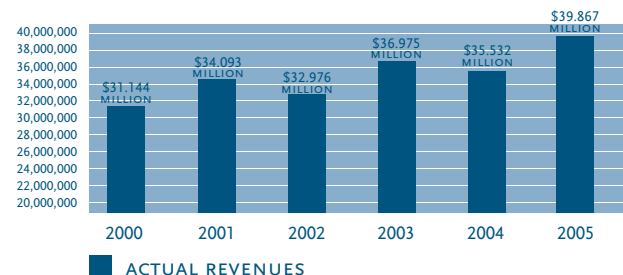


FIGURE 3.2
Pacific National Exhibition
Gross Revenues, 1999-2005





B. ECONOMIC IMPACT

Despite any uncertainties arising from the Public Consultation Process and the transition of ownership, the PNE continued to contribute \$2.8 million in 2004 and \$3.1 million in 2005 towards the maintenance of the site and buildings at Hastings Park.

The PNE continued to be a significant employer in the Lower Mainland providing 3,495 jobs in 2004, 90% of which are located in the Vancouver Lower Mainland area. The PNE is also the largest employer of youth in British Columbia and continues to focus on providing transferable job skills in areas such as customer service, communications, hospitality, finance, warehousing, security, agriculture, and entertainment.

An independent 2002 Pannell Kerr Forster economic impact study also reported a \$139 million economic impact from the PNE with the majority of those economic spin-offs being generated in the Vancouver Census Market Area. An additional 2004 independent study conducted during the public consultation process projected the PNE's economic impact at now between \$202 and \$236 million annually.

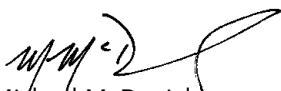
The PNE proudly continues to operate with no annual operating subsidy from government and all of its organizational activities are funded by revenues generated through three of its revenue generating activity streams: Playland Amusement Park, the annual Fair at the PNE, and year-round facility rentals.

SUMMARY

The PNE is committed to continuing to improve the organization's long-term financial stability and resilience. It is committed to exploring opportunities that will grow revenues and provide the organization with a sustainable future while maintaining an accessible, vibrant public park. It is committed to investing in the Hastings Park site, in the local community and in the quality family entertainment that meets the needs of the diverse communities we serve.

C. REPORT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Pacific National Exhibition Incorporation Act required that the PNE table an annual report containing information about the organization's performance. 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 fulfill 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 2004-2005 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.



Michael McDaniel
President & Chief Executive Officer



Jason Christopherson
Vice President, Finance & Corporate Services

VI. CORPORATE GOVERNANCE

2004/5 BOARD OF DIRECTORS

Mr. Brent MacGregor – Chair
Ms. Susan Mundick – Director
Ms. Estelle Lo – Director
Mr. Michael Zora – Director

2004 COMMUNITY ADVISORY COMMITTEE

Mr. Steve Boyce – Community Advisor (representing Hastings Community Forum)
Ms. Stephanie Williamson – Community Advisor (representing North Hastings BIA)
Mr. Pietro Nardone – Community Advisor (representing Hastings Park Conservancy)
Mr. David Fairey – Community Advisor (representing Vancouver Economic Development Commission)
Ms. Angela Wu – Community Advisor (representing Leadership Vancouver)
Vacant – Community Advisor (representing Hastings Community Association)

2005 COMMUNITY ADVISORY COMMITTEE

Ms. Stephanie Williamson – Community Advisor (representing North Hastings BIA)
Mr. David Fairey – Community Advisor (representing Vancouver Economic Development Commission)
Mr. Hakam Bhaloo – Community Advisor (representing Leadership Vancouver)
Vacant – Community Advisor (representing Hastings Community Association)
Vacant – Community Advisor (representing Hastings Community Forum)
Vacant – Community Advisor (representing Hastings Park Conservancy)

EXECUTIVE MANAGEMENT COMMITTEE

Mr. Michael McDaniel – President and Chief Executive Officer (Acting President & CEO Jan 1, 2004 – April 2005)
Mr. Jeff Garrad – Vice President, Finance and Corporate Services Jan 1 - April 15, 2004
Mr. Jason Christopherson – Vice President, Finance and Corporate Services June 15, 2004 – Dec 31, 2005
Mr. Michael MacSorley – Vice President, Operations
Mr. Peter Male – Vice President, Sales
Ms. Shelley Frost – Vice President, Marketing
Ms. Stacy Shields – Vice President, Human Resources (Director Human Resources Jan 1, 2004 – May 2005)
Ms. Salome Valente – Executive Assistant and Corporate Secretary

CORPORATE GOVERNANCE PRACTICES

The Pacific National Exhibition is a non-profit registered charity owned by the City of Vancouver. The company's business affairs are the responsibility of the Board of Directors, a City Council 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 management accountable. The staff is led by the President and Chief Executive Officer, who in turn selects and oversees the rest of the management team. The Board encourages management, under the direction of the President and Chief Executive Officer, to make clear and appropriate executive decisions. The Pacific National Exhibition's Board of Directors assumes responsibility for the stewardship of the organization.



Pacific National Exhibition
2004/5 FINANCIAL STATEMENTS

AUDITORS' REPORT ON FINANCIAL STATEMENTS 2004



BDO Dunwoody LLP
Chartered Accountants

600 - 925 West Georgia Street
Vancouver, BC
Canada, V6C 3L2
Telephone: (604) 688-5421
Telefax: (604) 688-5132
E-mail: vancouver@bdo.ca

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, 2004 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, 2004 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.

A handwritten signature in black ink that reads 'BDO Dunwoody LLP'.

Chartered Accountants

Vancouver, British Columbia
March 2, 2005

STATEMENT OF CASH FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 2004

	2004	2003
<u>Assets</u>		
<u>Current</u>		
Cash	\$ 301,106	\$ 33,962
Accounts Receivable	756,240	1,779,003
Inventories	690,795	580,758
Prepaid Expenses	194,745	9,557
	<u>1,942,886</u>	<u>2,403,280</u>
Property and equipment (Note 2)	7,052,156	5,701,617
	<u>\$8,995,042</u>	<u>\$8,104,897</u>

Liabilities and Net Assets

Current Liabilities

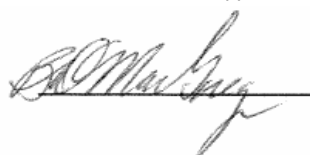
Accounts Payable and accrued liabilities	\$ 2,064,727	\$ 2,025,957
Bank Loans (Note 3)	2,489,044	3,132,489
Deferred Revenue	232,321	143,219
Current portion of obligations under capital leases (Note 5)	2,149,060	600,553
	<u>6,935,153</u>	<u>5,902,218</u>
Deferred contributions (Note 4)	317,549	353,761
Obligations under capital leases (Note 5)	1,153,125	1,848,918
	<u>8,405,827</u>	<u>8,104,897</u>

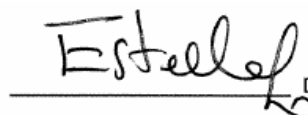
Net Assets

Net assets invested in property and equipment	3,467,249	2,933,212
Unrestricted net assets (deficiency)	(2,878,034)	(2,933,212)
	<u>589,215</u>	<u>-</u>
	<u>\$8,995,042</u>	<u>\$8,104,897</u>

Pension Plan (Note 6)
 Commitment (Note 7)
 Outstanding Lawsuits (Note 8)
 Transition of Ownership (Note 9)
 Related Party Transactions (Note 10)

Approved by the Board of Directors

 Director

 Director

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2004

		2004			2003
	Invested in property, plant, & equipment	Unrestricted	Total		Total
Net assets (deficit) - Beginning of year	\$2,933,212	(\$2,933,212)	\$ -		(\$3,069,674)
Excess (Deficiency) of revenue over expense for the year	(1,034,147)	1,623,362	589,215		3,069,674
Purchase of property, plant and equipment with unrestricted funds	981,128	(981,128)	-		-
Principal payments under capital leases	587,056	(587,056)	-		-
Net assets (deficit) - End of year	\$3,467,249	(\$2,878,034)	\$589,215	\$	-

STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2004

<u>Revenue</u>	2004	2003
Events	\$35,152,598	\$36,688,899
Province of British Columbia contributions (Note 9)	-	3,363,312
Amortization of deferred contributions	36,212	36,540
Other	343,725	287,057
Total Revenues	35,532,535	40,375,808
Operating Expenses	33,517,243	33,535,043
Operating Earnings	2,015,292	6,840,765
<u>Other Expenses</u>		
Amortization	966,497	1,114,768
City of Vancouver (Note 7, Note 9)	-	2,250,000
Interest - Bank Loans	181,461	109,335
Interest - Capital Leases	174,258	293,117
Loss on disposal of property and equipment	103,861	3,871
Total other Expenses	1,426,077	3,771,091
Excess of revenue over expenses	\$589,215	\$3,069,674

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2004

	2004	2003
<u>Cash flows from operating activities</u>		
Excess of revenue over expenditures for the year	\$589,215	\$3,069,674
Items not affecting cash		
Amortization	966,497	1,114,768
Amortization of deferred contributions	(36,212)	(36,540)
Loss on disposal of property and equipment	103,861	3,871
	<u>1,623,361</u>	<u>4,151,773</u>
Net change in non-cash working capital items	<u>855,409</u>	<u>(1,467,312)</u>
	<u>2,478,770</u>	<u>2,684,462</u>
<u>Cash flows from financing activities</u>		
(Decrease) Increase in bank loans	(643,445)	672,489
Principal payments under capital leases	(587,056)	(2,268,864)
Capital Lease Financing	<u>1,439,770</u>	<u>-</u>
	<u>209,269</u>	<u>(1,596,375)</u>
<u>Cash flows from investing activity</u>		
Net purchase of property and equipment	<u>(2,420,895)</u>	<u>(1,163,837)</u>
	<u>(2,420,895)</u>	<u>(1,163,837)</u>
<u>Increase in cash</u>	<u>267,144</u>	<u>(75,750)</u>
Cash - Beginning of year	<u>33,962</u>	<u>109,712</u>
<u>Cash - End of year</u>	<u>\$301,106</u>	<u>\$33,962</u>

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 and equipment

Property and equipment are recorded at cost less accumulated amortization. The Pacific National Exhibition changed its amortization policy in 2003. In prior years, the Pacific National Exhibition amortized its assets to the end of its lease term to estimated salvage values at the end of its operating lease at Hastings Park.

In 2003 the Pacific National Exhibition changed this policy to amortizing its assets on both a straight line, and declining balance basis to estimated salvage values over the useful lives of the assets, which range from 3 to 20 years.

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

Revenues from the annual fair are recorded as received (admissions) and as earned (exhibitors and advertisers). The Fair runs from late August to early September. Any exhibitor or advertising fees received for next year's Fair are deferred and will not be recognized until earned during the next year's Fair.

Revenues from Playland amusement park are recognized as received (admissions) and as earned (advertisers).

Revenues from short-term event rental of facilities are recorded upon completion of the event.

Contributions from the City of Vancouver, from senior government, or from other donors are recorded following the deferral method. Contributions are recorded as receivable if the amount can be reasonably estimated and collection is reasonably assured. Unrestricted contributions are recorded as revenue when they are deemed receivable. Contributions with a designated purpose are deferred until used for the intended purpose. Contributions to fund property, plant or equipment acquisitions and improvements are deferred and recognized on the same basis as the related property, plant or equipment is amortized.

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.

Financial Instruments

The Pacific National Exhibition's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, bank loans and obligations under capital leases. Unless otherwise noted, management is of the opinion that the Pacific National 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.

1. Nature of Operations

The Pacific National Exhibition is a premier entertainment destination in the province of British Columbia. It has four main activity streams: an annual 17 day fair, Playland amusement park, year-round facilities which are utilized to celebrate a variety of community, social, cultural, ethnic and commercial events, and the care and development of the park. The Pacific National Exhibition's venues will also host activities during the upcoming 2010 Winter Olympics.

The mission of the Pacific National Exhibition is to enrich the quality of life at Hastings Park, Vancouver, by providing family entertainment that invites its guests to celebrate Vancouver's heritage, culture and diverse communities in a vibrant urban park.

Effective January 1, 2004 the Pacific National Exhibition became wholly owned by the City of Vancouver; however its operations are self-sustaining. As a result of its ownership and its registered charity status, the Pacific National Exhibition is not subject to income taxes.

The Pacific National Exhibition was established in 1910 and incorporated in 1973 under the Pacific National Exhibition Incorporation Act of the Province of British Columbia.

2. Property and Equipment

	2004		2003
	Cost	Accumulated Amortization	Net
Machinery, furniture and Equipment	\$5,995,647	\$4,364,094	\$1,631,553
Playland rides and equipment	9,129,486	7,148,516	1,980,970
	15,125,133	11,512,610	3,612,523
Capital Projects in progress	45,546		45,546
Playland rides under capital Lease	5,731,803	2,337,716	3,394,087
	\$20,902,482	\$13,850,326	\$7,052,156

The Pacific National Exhibition leased two new rides in 2004 totaling \$1,439,770.

NOTES TO FINANCIAL STATEMENTS 2004

Included in the bank loans is an amount of \$349,044 denominated in US dollars (2003 – \$280,000). The interest due on this loan is payable in US dollars.

The Pacific National Exhibition has an operating line credit facility with a Canadian chartered bank providing for maximum borrowing of \$12 million in a combination of US and CDN dollars.

The operating line bears interest at the bank prime rate. A general security agreement covering all assets and undertakings of the Pacific National Exhibition has been provided as security for the operating line. The City of Vancouver has provided a guarantee for the \$12 million operating line to December 31, 2005.

The guarantee by the City of Vancouver of the Pacific National Exhibition's bank loans includes the amount of letters of credit outstanding totaling \$45,000, which was the same as the amount of the letters of credit outstanding as at December 31, 2003.

4. Deferred Contributions

In 2000, \$1,437,000 was received from the Province to fund capital upgrades and improvements to the Pacific National Exhibition's facilities. Of this amount nil was spent in 2004 (2003 - \$35,566, 2002 - \$18,845, 2001 - \$1,029,359, and 2000 - \$318,319) on specified projects. The unspent balance of \$34,825 is recorded as restricted cash, in a separate bank account and will be utilized in future years.

	<u>2004</u>	<u>2003</u>
Balance - Beginning of year	\$318,936	\$319,910
Add: contributions used to acquire property, plant & equipment	0	35,566
Less: amounts amortized to revenue	(36,212)	(36,540)
	282,724	318,936
 Add: Unspent Funds – Included in Cash	 34,825	 34,825
 Balance end of year	 \$317,549	 \$353,761

5. Obligations Under Capital Leases

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

Year ending December 31	
2005	\$2,325,051
2006	374,964
2007	374,964
2008	518,941
	<u>3,593,920</u>
Less: Amount representing interest	(291,735)
Principal Obligation	3,302,185
Less: Current Portion	(2,149,060)
	<u>\$1,153,125</u>

Interest rates on capital leases average 5.98% annually.

The capital leases provide that at the end of the respective lease terms, the Pacific National 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. Two lease terms end at the end of 2005 with a purchase option price of \$1,188,774.

6. Pension Plan

The municipality and its employees contribute to the Municipal Pension Plan (the plan), a jointly trustee pension plan. The Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of benefits. The pension plan is a multi-employer contributory pension plan. Basic pension benefits provided are defined. The plan has about 130,000 active members and approximately 45,000 retired members. Active members include approximately 29,000 contributors from local governments.

Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent valuation as at December 31, 2003 indicated an unfunded liability of \$789 million for basic pension benefits. The next valuation will be as at December 31, 2006 with results available in 2007. The actuary does not attribute portions of the unfunded liability to individual employers.

6. Pension Plan - Continued

Contributions by the Pacific National Exhibition to the Plan in fiscal 2004:
Note: 2004 (25 Pay Periods), 2003 (24 Pay Periods)

	<u>2004</u>	<u>2003</u>
Employee	\$424,007	\$378,996
Employer	435,940	382,455
Total	<u>\$859,947</u>	<u>\$761,451</u>

7. Commitment

During 2000, the City agreed to repair the roof of the Coliseum building on the understanding that the Pacific National Exhibition would contribute to the costs associated with the work. The Pacific National 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 Pacific National Exhibition will contribute to these repairs. During the year no contribution was made. (2003 - \$50,000).

8. Outstanding Lawsuits

Various lawsuits and claims are pending by and against the Pacific National Exhibition. It is the opinion of management that final determination of these claims will not materially affect the financial position of the Pacific National Exhibition. Estimates of costs anticipated to result from claims are accrued where the amount can be reasonably estimated. Any differences from the estimates or any losses on claims that cannot be estimated will be recorded in the year the settlements occur.

9. Transition of Ownership

Ownership of the Pacific National Exhibition was transferred from the Province of British Columbia to the City of Vancouver effective January 1, 2004. As part of the transition agreement in 2003, the Province made a one-time grant to the Pacific National Exhibition totaling \$3,363,312 to extinguish the Pacific National Exhibition's net asset deficiency, repay the costs incurred by the Pacific National Exhibition related to the transition, and to provide a transition payment to the City of \$2,200,000.

The net affect of the transition grant less related costs was \$663,312. As a result, the Pacific National Exhibition's excess of revenue over expenses from operations for 2003 would have been \$2,406,362 without this one-time grant.

10. Related Party Transactions

As a result of the purchase of the Pacific National Exhibition by the City of Vancouver, the Pacific National Exhibition is now required to report related party transactions with the City. During the year the Pacific National Exhibition paid the following amounts to the City of Vancouver:

	2004
Water Billings	\$307,578
Policing Services	172,600
Permits and Other	18,963
Total	\$499,141

These transactions are in the normal course of operations and are measured at the exchange value being the amount of consideration established and agreed to by the related parties.



BDO Dunwoody LLP
Chartered Accountants

600 - 925 West Georgia Street
Vancouver, BC
Canada, V6C 3L2
Telephone: (604) 688-5421
Telefax: (604) 688-5132
E-mail: vancouver@bdo.ca

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, 2005 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, 2005 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.

A handwritten signature in black ink that reads 'BDO Dunwoody LLP'.

Chartered Accountants

Vancouver, British Columbia
March 2, 2006

STATEMENT OF FINANCIAL POSITION 2005

	2005	2004
<u>Assets</u>		
<u>Current</u>		
Cash (Note 5)	\$ 595,996	\$ 301,106
Accounts Receivable	3,473,814	756,240
Inventories	695,767	690,795
Prepaid Expenses	339,169	194,745
	<u>5,104,746</u>	<u>1,942,886</u>
Property and equipment (Note 3)	8,612,812	7,052,156
	<u>\$ 13,717,558</u>	<u>\$ 8,995,042</u>

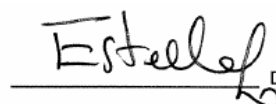
Liabilities and Net Assets

<u>Current Liabilities</u>		
Accounts Payable and accrued liabilities	\$ 3,710,960	\$ 2,064,728
Bank Loans (Note 4)	3,303,272	2,489,044
Deferred Revenue	121,701	232,321
Current portion of obligations under capital leases (Note 6)	1,237,355	2,149,060
	<u>8,373,288</u>	<u>6,935,153</u>
Deferred contributions (Note 5)	274,668	317,549
Obligations under capital leases (Note 6)	2,464,945	1,153,125
	<u>11,112,901</u>	<u>8,405,827</u>
<u>Net Assets</u>		
Net assets invested in property and equipment	4,635,848	3,467,249
Unrestricted net deficiency	(2,031,191)	(2,878,034)
	<u>2,604,657</u>	<u>589,215</u>
	<u>\$ 13,717,558</u>	<u>\$ 8,995,042</u>

Financial Instruments (Note 2)
Pension Plan (Note 7)
Outstanding Lawsuits (Note 8)
Related Party Transactions (Note 9)

Approved by the Board of Directors

 Director

 Director

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED DEC 31, 2005

	2005			2004
	Invested in property & equipment	Unrestricted	Total	Total
Net assets (deficiency) - Beginning of year	\$ 3,467,249	\$ (2,878,034)	\$ 589,215	\$ -
Excess of revenue over expense for the year	(1,062,901)	3,078,343	2,015,442	589,215
Purchase of property and equipment with unrestricted funds	1,246,393	(1,246,393)	-	-
Principal payments under capital leases	985,107	(985,107)	-	-

STATEMENT OF OPERATIONS FOR THE YEAR ENDED DEC 31, 2005

<u>Revenue</u>	2005	2004
Events	\$ 43,083,582	\$ 35,152,598
Amortization of deferred contributions	42,881	36,212
Other	510,579	343,725
Total Revenues	43,637,042	35,532,535
<u>Operating Expenses</u>	40,008,001	33,517,243
<u>Operating Earnings</u>	3,629,041	2,015,292
<u>Other Expenses</u>		
Amortization	1,105,781	966,497
Interest - Bank Loans	224,710	181,461
Interest - Capital Leases	283,108	174,258
Loss on disposal of property and equipment	-	103,861
Total other Expenses	1,613,599	1,426,077
Excess of revenue over expenses	\$ 2,015,442	\$ 589,215

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DEC 31, 2005

	2005	2004
<u>Cash flows from operating activities</u>		
Excess of revenue over expenditures for the year	\$ 2,015,442	\$ 589,215
Items not affecting cash		
Amortization	1,105,781	966,497
Amortization of deferred contributions	(42,881)	(36,212)
Loss on disposal of property and equipment	-	103,861
	<u>3,078,342</u>	<u>1,623,361</u>
Net change in non-cash working capital items	<u>(1,331,358)</u>	<u>855,409</u>
	<u>1,746,984</u>	<u>2,478,770</u>
<u>Cash flows from financing activities</u>		
Increase (decrease) in bank loans	814,228	(643,445)
Principal payments under capital leases	(985,107)	(587,056)
Capital Lease Financing	<u>1,385,222</u>	<u>1,439,770</u>
	<u>1,214,343</u>	<u>209,269</u>
<u>Cash flows from investing activity</u>		
Net purchase of property and equipment	<u>(2,666,437)</u>	<u>(2,420,895)</u>
	<u>(2,666,437)</u>	<u>(2,420,895)</u>
Increase in cash	294,890	267,144
Cash - Beginning of year	<u>301,106</u>	<u>33,962</u>
Cash - End of year	\$ 595,996	\$ 301,106

SIGNIFICANT ACCOUNTING POLICIES 2005

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 and equipment

Property and equipment are recorded at cost less accumulated amortization. Property and equipment are amortized over their estimated useful lives at the following rates and methods:

Machinery, furniture, and equipment	10 – 30%	Declining balance method
Playland rides and equipment	5 – 15 years	Straight line method
Playland rides under capital lease	15 years	Straight line method

The Pacific National Exhibition changed its amortization policy in 2003. In prior years, the Pacific National Exhibition amortized its assets to the end of its lease term to estimated salvage values at the end of its operating lease at Hastings Park.

In 2003 the Pacific National Exhibition changed this policy to amortizing its assets on both a straight line, and declining balance basis to estimated salvage values over the useful lives of the assets, which range from 3 to 15 years.

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

Revenues from the annual fair are recorded as received (admissions) and as earned (exhibitors and advertisers). The Fair runs from late August to early September. Any exhibitor or advertising fees received for next year's Fair are deferred and will not be recognized until earned during the next year's Fair.

Revenues from Playland amusement park are recognized as received (admissions) and as earned (advertisers).

Revenues from short-term event rental of facilities are recorded upon completion of the event.

Contributions from the City of Vancouver, from senior government, or from other donors are recorded following the deferral method. Contributions are recorded as receivable if the amount can be reasonably estimated and collection is reasonably assured. Unrestricted contributions are recorded as revenue when they are deemed receivable. Contributions with a designated purpose are deferred until used for the intended purpose. Contributions to fund property or equipment acquisitions, and improvements are deferred and recognized on the same basis as the related property, plant or equipment is amortized.

SIGNIFICANT ACCOUNTING POLICIES 2005

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. Areas involving significant estimation include the life and amortization rates of property and equipment. Actual results could differ from those estimates.

Financial Instruments

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

1. Nature of Operations

The Pacific National Exhibition is a premier entertainment destination in the province of British Columbia. It has four main activity streams: an annual 17 day fair, Playland amusement park, year-round facilities which are utilized to celebrate a variety of community, social, cultural, ethnic and commercial events, and the care and development of the park. The Pacific National Exhibition's venues will also host activities during the upcoming 2010 Winter Olympics.

The mission of the Pacific National Exhibition is to enrich the quality of life at Hastings Park, Vancouver, by providing family entertainment that invites its guests to celebrate Vancouver's heritage, culture and diverse communities in a vibrant urban park.

Effective January 1, 2004 the Pacific National Exhibition became wholly owned by the City of Vancouver; however its operations are self-sustaining. As a result of its ownership and its registered charity status, the Pacific National Exhibition is not subject to income taxes.

The Pacific National Exhibition was established in 1910 and incorporated in 1973 under the Pacific National Exhibition Incorporation Act of the Province of British Columbia.

2. Financial Instruments

a) Bank Loans:

The Pacific National Exhibition has an operating credit facility with a Canadian chartered bank in a combination of US and CDN dollars. The operating line bears interest at the bank prime rate.

b) Accounts receivable:

The Pacific National Exhibition regularly sells tickets through off-site retailers for its annual fair and Playland amusement park. At year-end a balance of \$2,013,676 in accounts receivable was due from off-site retailers, which was collected in full in January 2006.

NOTES TO FINANCIAL STATEMENTS 2005

3. Property and Equipment

	2005		2004
	Cost	Accumulated Amortization	Net
Machinery, furniture and Equipment	\$7,199,514	\$4,862,926	\$2,336,588
Playland rides and equipment	9,091,708	6,891,167	2,200,541
	16,291,222	11,754,093	4,537,129
Capital Projects in progress			45,546
Playland rides under capital Lease	6,722,928	2,647,245	4,075,683
	\$23,014,150	\$14,401,338	\$8,612,812

4. Bank Loans

Included in the bank loans is an amount of \$80,000 denominated in US dollars (2004 – \$349,044). The interest due on this loan is payable in US dollars.

The Pacific National Exhibition has an operating line credit facility with a Canadian chartered bank providing for maximum borrowing of \$12 million in a combination of US and CDN dollars.

The operating line bears interest at the bank prime rate. A general security agreement covering all assets and undertakings of the Pacific National Exhibition has been provided as security for the operating line.

The guarantee by the City of Vancouver of the Pacific National Exhibition's bank loans includes the amount of letters of credit outstanding totaling \$45,000 (2004 - \$45,000).

NOTES TO FINANCIAL STATEMENTS 2005

5. Deferred Contributions

In 2000, \$1,437,000 was received from the Province to fund capital upgrades and improvements to the Pacific National Exhibition's facilities. Of this amount \$34,825 was spent in 2005 (2004 – NIL, 2003 - \$35,566, 2002 - \$18,845, 2001 - \$1,029,359, and 2000 - \$318,319) on specified projects.

	2005	2004
Balance - Beginning of year	\$282,724	\$318,936
Add: contributions used to acquire property, plant & equipment	34,825	-
Less: amounts amortized to revenue	(42,881)	(36,212)
	274,668	282,724
 Add: Unspent Funds – Included in Cash	 -	 34,825
 Balance - end of year	 <u>\$274,668</u>	 <u>\$317,549</u>

6. Obligations Under Capital Leases

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

Year ending December 31	
2006	\$1,364,357
2007	1,364,359
2008	880,564
2009	403,385
	<u>4,012,665</u>
Less: Amount representing interest	(310,365)
Principal Obligation	3,702,300
Less: Current Portion	(1,237,355)
	<u>\$2,464,945</u>

Interest rates on capital leases range from 4.40% – 7.00% annually.

The capital leases provide that at the end of the respective lease terms, the Pacific National 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. Pension Plan

The Pacific National Exhibition and its employees contribute to the Municipal Pension Plan (the plan), a jointly trustees pension plan. The Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of benefits. The pension plan is a multi-employer contributory pension plan. Basic pension benefits provided are defined. The plan has about 130,000 active members and approximately 48,000 retired members.

Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent valuation as at December 31, 2003 indicated an unfunded liability of \$789 million for basic pension benefits. The next valuation will be as at December 31, 2006 with results available in 2007. The actuary does not attribute portions of the unfunded liability to individual employers.

Contributions by the Pacific National Exhibition to the Plan in fiscal 2005:

	2005	2004
Employee	\$473,076	\$424,007
Employer	497,755	435,940
Total	<u>\$970,831</u>	<u>\$859,947</u>

8. Outstanding Lawsuits

Various lawsuits and claims are pending by and against the Pacific National Exhibition. It is the opinion of management that final determination of these claims will not materially affect the financial position of the Pacific National Exhibition. Estimates of costs anticipated to result from claims are accrued where the amount can be reasonably estimated. Any differences from the estimates or any losses on claims that cannot be estimated will be recorded in the year the settlements occur.

9. Related Party Transactions

During the year the Pacific National Exhibition paid the following amounts to the City of Vancouver:

	2005	2004
Water Billings	\$378,384	\$307,578
Policing Services	164,893	172,600
Permits and Other	19,221	18,963
Total	<u>\$562,498</u>	<u>\$499,141</u>

These transactions are in the normal course of operations and are measured at the exchange value being the amount of consideration established and agreed to by the related parties.

