March 6, 2000

Auditors' Report

To the Directors of
Pacific National Exhibition

We have audited the balance sheet of **Pacific National Exhibition** as at December 31, 1999 and the statements of changes in net assets, revenue and expenditures 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, 1999 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 Incorporation Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

PricewaterhouseCoopers LLP

Chartered Accountants

	1999 $	1998 $
Assets		
Current assets		
Cash	62,611	43,715
Accounts receivable (note 7)	1,622,934	760,546
Inventories	532,662	549,155
Prepaids	16,304	17,208
Deposit on amusement ride (note 8)	294,281	-
	2,528,792	1,370,624
Capital assets (notes 3 and 8)	2,197,027	2,506,530
	4,725,819	3,877,154
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	1,631,493	2,265,223
Bank loan (note 4)	5,790,000	3,630,000
Deferred revenue	210,524	103,004
Current portion of obligations under capital leases (note 5)	72,207	103,081
	7,704,224	6,101,308
Obligations under capital leases (note 5)	39,741	111,949
	7,743,965	6,213,257
Net assets		
Net assets invested in capital assets	2,085,079	2,291,500
Unrestricted net assets	(5,103,225)	(4,627,603)
	(3,018,146)	(2,336,103)
	4,725,819	3,877,154

Nature and future of operations (note 1)

Commitment (note 8)

Approved by the Board of Directors

____________________ Director   ____________________ Director

	1999			1998
	Invested in capital assets $	Unrestricted $	Total $	Total $
Net assets - Beginning of year	2,291,500	(4,627,603)	(2,336,103)	(3,731,270)
Excess (deficiency) of revenue over expenditures for the year	(402,899)	(279,144)	(682,043)	1,395,167
Investment in capital assets	93,396	(93,396)	-	-
Principal payments under capital leases	103,082	(103,082)	-	-
Net assets - End of year	2,085,079	(5,103,225)	(3,018,146)	(2,336,103)

	1999 $	1998 $
Revenue		
Events	26,492,086	29,515,429
Government of British Columbia contribution	1,117,500	2,000,000
City of Vancouver contribution (note 1(c))	500,000	500,000
	28,109,586	32,015,429
Operating expenditures	27,528,179	29,365,977
Operating earnings	581,407	2,649,452
Other expenditures		
Depreciation	402,899	379,551
Interest	294,346	296,770
Interest on capital leases	16,205	26,331
Loss on sale of assets	-	1,633
City of Vancouver (note 1(d))	550,000	550,000
	1,263,450	1,254,285
Excess (deficiency) of revenue over expenditures for the year	(682,043)	1,395,167

	1999 $	1998 $
Cash flows from operating activities		
Excess (deficiency) of revenue over expenditures for the year	(682,043)	1,395,167
Items not affecting cash		
Depreciation	402,899	379,551
Loss on sale of assets	-	1,633
	(279,144)	1,776,351
Net change in non-cash working capital items, excluding current portion of obligation under capital leases	(1,665,482)	361,888
	(1,944,626)	2,138,239
Cash flows from financing activities		
Increase (decrease) in bank loan	2,160,000	(2,170,000)
Principal payments under capital leases	(103,082)	(93,024)
	2,056,918	(2,263,024)
Cash flows from investing activities		
Purchase of capital assets	(93,396)	(229,546)
Increase (decrease) in cash	18,896	(354,331)
Cash - Beginning of year	43,715	398,046
Cash - End of year	62,611	43,715

1 Nature and future of operations

The Pacific National 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) under an operating agreement with the City of Vancouver (the City).

On April 27, 1997, the City and the Exhibition approved a conditional extension of the lease of Hastings Park to the Exhibition (the Lease) for the period from September 30, 1997 until December 31, 1999. Significant terms of the Lease are:

a) The Exhibition will pay rent to the City of $1 for the full term of the Lease extension.

b) The Exhibition may use Hastings Park for general operating purposes, which include operating the annual fair known as the Pacific National Exhibition and Playland Amusement Park.

c) The City will pay the Exhibition a monthly fee of $85,000 for the maintenance of Hastings Park for the period from October 31, 1997 through December 31, 1997. A further annual fee will be paid by the City to the Exhibition on January 1, 1998 and January 1, 1999 of $500,000.

d) Not less than 10 days prior to the expiry of the Lease on December 31, 1999, the City will receive a payment of $1,100,000 from the Exhibition as a termination fee.

The termination fee was accrued over a two-year period commencing on January 1, 1998 and was paid in full in December 1999.

On June 24, 1999, City Council approved an extension of the Exhibition's use of Hastings Park, in the form of an Operating Agreement (the Agreement). A formal written agreement with the City has not been executed and is being finalized. However, all parties to the Agreement are acting in accordance with the proposed terms. Significant terms of the Agreement are:

- The term of the Agreement will be for three years commencing January 1, 2000 and terminating December 31, 2002.

- Restoration of Hastings Park will continue 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 all operating costs associated with the premises. The City will contribute to the maintenance of Hastings Park only in those years where the Exhibition does not make an operating profit. 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 Exhibition is continuing to actively assess alternative sites for relocation. However, there is no assurance that the Exhibition will be able to secure a suitable site.

Due to the uncertainty about the future location of the Exhibition, management is unable to estimate the amount, if any, of removal and site restoration costs of Hastings Park. Accordingly, no provision has been made in these financial statements for future removal and site restoration costs. The ultimate cost, if any, cannot be determined until the future location and format of the Exhibition is determined.

As at December 31, 1999, the Exhibition had a net asset deficiency of $3,018,146 (1998 - $2,336,103). 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, and its ability to find a new site and finance its redevelopment or remain at the current site. These financial statements have been prepared on the basis that the Exhibition will realize its assets and discharge its liabilities in the normal course of operations.

2 Summary of significant accounting policies

Use of estimates

The preparation of financial statements in accordance with 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 income and expenses for the reporting period of the statement of revenue and expenditures. Actual results could differ from those estimates.

Capital assets

Capital assets are recorded at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets.

The Exhibition depreciates its assets to estimated salvage values over the remaining operating agreement term, expiring December 31, 2002. Management has estimated total salvage values to be $1,000,000.

Inventories

Inventories consist of stores, plush toys, food and beverages, and are valued at the lower of cost and replacement cost.

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 has 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.

Deferred revenue

Advertising revenue for long-term contracts is recognized on a straight-line basis over the term of the related contract.

3 Capital assets

			1999	1998
	Cost $	Accumulated depreciation $	Net $	Net $
Machinery, furniture and equipment	2,136,493	1,714,158	422,335	473,599
Playland rides and equipment	6,197,052	4,445,582	1,751,470	2,001,960
	8,333,545	6,159,740	2,173,805	2,475,559
Leased assets	163,317	140,095	23,222	30,971
	8,496,862	6,299,835	2,197,027	2,506,530

4 Bank loan

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

	1999		1998	
	Available $	Outstanding $	Available $	Outstanding $
Revolving seasonal operating line	3,000,000	-	3,000,000	-
Revolving operating line	12,000,000	5,790,000	12,000,000	3,630,000
	15,000,000	5,790,000	15,000,000	3,630,000

A general security agreement covering all assets and undertakings of the Exhibition has been provided as security for the seasonal operating line and operating line. Additionally, the Province has provided a guarantee expiring on December 31, 2002 for the $12 million operating line, which bears interest at prime rate. All amounts borrowed under the operating line are due and payable in full on May 31, 2000 unless the bank agrees, prior to the maturity date, to convert the operating line into a demand loan.

The seasonal operating line is available from June 15, 2000 until September 15, 2000 and can only finance seasonal costs associated with the annual fair in excess of the $12 million operating line. The facility bears interest at prime rate. All amounts borrowed under the seasonal operating line are due and payable in full on September 15, 2000 unless the bank agrees, prior to the maturity date, to convert the seasonal operating line into a demand loan.

The guarantee by the Province of the Exhibition's debt includes the amount of any letters of credit outstanding. Letters of credit outstanding currently total $45,000 (see note 6).

5 Obligations under capital and operating leases

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

Capital leases

	$
Year ending December 31,	
2000	79,990
2001	40,911
	120,901
Less: Amount representing interest	8,953
	111,948
Less: Current portion	72,207
	39,741

Interest rates on capital leases average 9.8% annually.

Operating lease

	$
Year ending December 31, 2000	22,547

6 Letters of credit

The following letters of credit are outstanding as of December 31, 1999:

	Amount $	Expiry
Brewers' Distributions Ltd.	35,000	August 27, 2000
Liquor Distribution Branch	10,000	August 27, 2000
	45,000	

7 Government of British Columbia contribution

During 1999, the Provincial Government committed to contribute $1.1 million to the Exhibition to reimburse it for the termination fee of $1.1 million paid to the City in December (note 1(d)). The contribution has been recognized as revenue in 1999 and is included in current accounts receivable as at December 31, 1999.

In 1998, the Exhibition received a one-time contribution from the Provincial Government as a partial repayment of a commitment incurred by a previous board of directors.

8 Amusement ride acquisition commitments

The Exhibition has entered into agreements to acquire three new amusement rides for total consideration of U.S. $4.1 million plus certain installation costs. The agreements provide that the rides will be delivered, installed and fully functional during 2000. As at December 31, 1999, the Exhibition has made a deposit of $294,281 relating to the acquisition of one of the rides.

A Canadian chartered bank has agreed to enter into sale and lease back financing arrangements for the new amusement rides. Under the financing arrangement, the bank will incur the acquisition and installation costs of the rides and lease them back to the Exhibition. The specific terms of the leases are under negotiation.

Subsequent to year end, the bank reimbursed the Exhibition for the progress payment.

9 Superannuation fund

The Exhibition contributes to the British Columbia Municipal Superannuation Fund for eligible employees.

10 Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the Exhibition, including those related to customers, suppliers, or other third parties, have been fully resolved.