May 11, 2005

To: The Board of Governors of Exhibition Place

From: Dianne Young
General Manager & CEO

Subject: Audit Results for the Consolidated Financial Statements for Exhibition Place for the Year Ended December 31, 2004

Purpose:

This report presents the audit results for the consolidated financial statements for Exhibition Place for approval of the Board.

Financial Implications & Impact Statement:

There are no financial implications to this report.

Recommendation:

It is recommended that the attached report from the auditors, Ernst & Young LLP, entitled Audit Results – Year Ended December 31, 2004, be received for information.

Background:

As a local board of the City of Toronto, the Board is required to approve of its year-end financial statements and related communications from the auditors for submission to the City.

Discussion:

As part of their audit engagement for the Board of Governors of Exhibition Place, Ernst and Young, the external auditors, provide a comprehensive reporting document to the Finance and Audit Committee for Exhibition Place.

This document is a direct communication from the auditors to the Committee and ultimately to the governing body of the organization. It summarizes the scope of the audit work, describes the audit objectives, identifies issues of audit significance discussed with management and provides the communications required by Canadian professional accounting standards. The Audit Results report from Ernst & Young is divided into various sections these are described in the balance of this report.
Key Messages

The auditors convey the following important summary information to the statement readers:

- No significant changes in 2004 overall audit plan except for a change in methodology in the testing of parking revenues
- No adjustments arising from the audit had a significant effect on the financial statements
- No disagreements with management on financial accounting and reporting matters
- No significant difficulties encountered in performing the audit

Terms of Engagement and Audit Approach

These sections of the report cover a diverse group of topics such as the audit objectives, the audit team, assessment of audit risk, and the concept of materiality. The following amounts are defined as the thresholds for materiality for the audit:

<table>
<thead>
<tr>
<th>Materiality Level</th>
<th>Threshold to Communicate Errors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exhibition Place as a Consolidated Entity</td>
<td>$420,000</td>
</tr>
</tbody>
</table>

New Developments in Accounting or Auditing Standards

Of all the new developments described in the Audit Results package, two have had an impact on the preparation of the financial statements for the Canadian National Exhibition Association:

- Employees Future Benefits
- Financial Instruments

  Additional disclosure is contained in note 5
  Additional disclosure is contained in note 9

Other Required Communications

This section covers a wide variety of topics such as changes in accounting policies, auditors’ independence and fees charged on this engagement. Some of the key communications in this section are that:

- No material weaknesses in internal controls were discovered in the audit
- The auditors received the full cooperation of staff and were provided with complete and timely access to all books, records and other accounting documents
- The auditors confirmed their objectivity with respect to this assignment
- Disclosure of audit fees

Items of Audit Significance Discussed with Management

There were seven topics that the auditors raised with management:
(a) Accounting for Step-Up Leases

The CICA Handbook recommends that for leases that have escalating rents over the term of the lease, it is necessary in any one year to record the average or straight-line amount of the rent. The rent from the various tenant leases at Exhibition Place had not been recorded that way in the past but adjustments were made to do so in 2004 (an extra $189,662 in revenue in 2004) and to make retroactive adjustments with respect to prior years. The auditors concurred with the adjustments made.

(b) Employees Future Benefits

The City of Toronto engaged Mercer's Consulting to update the actuarial valuation of employee benefit costs in the year 2003 and data was projected from this work to December 31, 2004 and, to the degree applicable to the CNEA, is contained in the CNEA financial statements.

This actuarial valuation did not distinguish between employees of the CNEA and the Board of Governors of Exhibition Place. Management staff used CNEA employee history for sick and vacation records to present the appropriate data in the financial statements. The auditors were comfortable that all of the required disclosures with respect to employee future benefits were made in the notes to the statements.

(c) Parking Revenues

The auditors relied on the work performed by the Internal Audit Division of the City of Toronto rather than carry out their individual testing and verification of parking revenue and transactions. Ernst and Young were satisfied with the audit work performed in this area by the City audit group.

(d) Trigeneration Project and Energy Retrofit Program

The auditors made an investigation and determined that neither one of these projects would have an impact on the 2004 statements.

(e) Computer Conversion

The Board implemented a new financial system in 2004. The auditors performed conversion tests on the new Apogee financial system and were satisfied with the results.

(f) Valuation of Accounts Receivables

The auditors noted material accounts receivables from the Royal Agricultural Winter Fair and the former tenants of the Ricoh Coliseum. The auditors noted that a satisfactory agreement had been negotiated to address the outstanding amount from the 2003 Royal Agricultural Winter Fair event. They also noted that, with respect to the former tenant of the Ricoh Coliseum, sufficient
funds are available from the current bank account, revenue from the second year of the naming rights contract and the letter of credit held by the City to pay any outstanding obligations.

(g) Changes to Financial Statements

The auditors were satisfied with the changes made to the financial statements to recognize the incremental lease revenue and other changes made in the notes for expanded disclosure.

Summary of Audit Differences – Consolidated Statements

There were three items in the financial statements where the auditors believed changes should be made to properly reflect generally accepted accounting principles:

<table>
<thead>
<tr>
<th>Item</th>
<th>Description by Auditors</th>
<th>Management Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>(h)</td>
<td>At year end an amount of $39,646 had been over-accrued for OMERS obligations</td>
<td>This is true and will result in 2005 in a credit in the OMERS account of $39,646</td>
</tr>
<tr>
<td>(i)</td>
<td>A clothing and sponsorship company claimed to be owed more than had been noted in the financial records of the CNEA - $7,800</td>
<td>Management was disputing the amount owed to the company at year-end and did not recognize the additional amount until discussions with the company occurred in March of this year</td>
</tr>
<tr>
<td>(j)</td>
<td>Under-provision for doubtful accounts for Board of Governors accounts receivable</td>
<td>Many allowances for doubtful accounts have a judgmental aspect to them. There are two former companies that owe the Board for services and rents related to events. The auditors’ comments have some validity although management is hopeful for some amount of payment in the future and is pursuing with City Legal.</td>
</tr>
</tbody>
</table>

Letters from Ernst & Young

These are the City of Toronto Engagement Letter (pages 15 – 23) and the Independence Letter (pages 24 – 25), respectively.
Letter of Recommendations

This is the section of the audit results where the auditors make recommendations to improve the accounting and internal control procedures. There were three areas on which the auditors had observations and recommendations. What follows are the observations and recommendations from the auditors and the response from management on the issues and recommendations.

(k) Issue #1 – Payroll Procedures

Observations & Recommendations

Our audit observations indicated that the approval of payroll figures is done online through Apogee before being transmitted to ADP. We understand that payroll data is transmitted to ADP electronically and the output from ADP is compared to Apogee afterwards. Our review of the output did not show evidence that the payroll data has been reviewed for accuracy after transmission by a signature on the hardcopy printouts. We understand that this is being done, but without the signature there is no trail. In addition, the requirement of a signature also improves the organization controls by ensuring that the individual who is responsible for the review has in fact done the work.

Lack of approval for payroll figures may result in inaccurate or unauthorized payments to employees.

We recommend that payroll figures are reviewed after transmission to ADP and that the hard copy ADP payroll register is signed off to indicate that a proper review was completed. Ideally, this review of the ADP payroll register should be performed by an individual who is independent of the payroll processing function.

Management Comment

As noted above, the payroll process presently requires verification of the electronic record sent and received from ADP by the payroll supervisor.

The hourly payroll, which is issued weekly, is prepared by the payroll staff and will be reviewed by the Payroll Supervisor. The Payroll Supervisor will also sign the summary page for the payroll register which shows all of the cheques and direct deposits produced on the payroll.

The salaried payroll, which is paid every two weeks, is prepared by the Payroll Supervisor and will be reviewed by the Director of Finance. The Director of Finance will also sign the summary page for the payroll register which shows all of the direct deposits produced on the payroll.

(l) Issue #2 – Non-Standard Journal
Observations

The Board uses two separate general journals for the BOG and CNEA. Although there are two separate general journals, the Board uses one numerical sequence of journal entries. These non-standard journal entries are held by two separate individuals.

By having two sets of general journals utilizing one numerical sequence, it is difficult to obtain comfort that the sequence of journal entries is complete.

We recommend that two separate numerical sequences be maintained for the separate entities. As well, we recommend that these journal entries be filed in a central location and not with an individual.

Management Comment

The Finance Division of Exhibition Place provides accounting services for the Board of Governors and the Canadian National Exhibition Association and owing to the structure of many payroll and work orders it is necessary to prepare accounting entries that affect both entities simultaneously. In addition some cheques are paid to vendors where the accounting ledgers of both organizations are charged by the same transaction.

For these reasons it would not be technically possible to adopt the auditor’s first recommendation of having separate numerical sequences for the journals of each organization. A significant number of the journals represent inter-company transactions as noted above which affect both entities simultaneously.

However the auditor’s second recommendation is reasonable and will be adopted. Copies of all the journals will be filed in numerical sequence in a central location with all of the appropriate back–up material.

(m) Issue # 3 —Journal Entries

Observations

Currently on the Apogee system employees are capable of posting one entry into the general ledger of the Board and partly into the CNEA. As a result when employees post inter-company transactions the general ledgers become out of balance. To compensate for this, employees have been instructed to post inter-company transactions to inter-company accounts. To further mitigate this factor the Director of Finance reconciles the general ledgers at the end of the year; however this process is time consuming and may result in errors.

The result of this is such that journal entries may be incorrectly posted. This could cause transactions to be inappropriately recorded in the general ledger leading to misstatements in the financial statements.
We recommend that logical access to the general ledgers be restricted. Only employees whose job functions require access to the general ledger of a specific entity should be allowed to post entries to the general ledger of that entity. Furthermore, job functions should be segregated so that employees do not post entries to both entities. The Director of Finance or other competent, knowledgeable staff should be responsible for posting complex transactions including inter-company transactions. Additionally, if appropriate job segregation is not possible all inter-company transactions and similar complex transactions should be reviewed by the appropriate level of management (i.e. Director of Finance).

Management Comment

Because of the transition to the new financial and accounting system in March 2004, the closing of the books and the reconciliation of the various accounts in 2004 were more complex and required more journal adjustments than in previous years. The concern raised by the auditors’ with respect to posting journal entries was related to the new financial system transition and was not typical of other years.

The auditor’s observation about the necessity for posting journals into both the Board of Governors and the CNEA accounting records simultaneously is true and, as explained under Issue #2 above, is an integral part of the inter-company transactions that occur between the two organizations for payroll, work orders and other activities. For example, during the period of the annual Canadian National Exhibition, Board cleaning staff provides a service to the CNEA, and their wages, in the first instance are charged to a Board compensation account. Subsequently, by an inter-company transaction, the full cost of the cleaning services is transferred to the CNEA.

Board accounting staff responsibilities are divided along functional lines such as accounts payable and payroll, because this is the most efficient operational structure whereby in the winter accounts payable staff are busy with Board/NTC accounts and in the summer with CNE accounts. To have to reorganize the staff not only by functional lines but also by programs would likely require increase in account staffing. Therefore, it would be very difficult to adopt the auditors’ recommendation of giving only certain staff access to the CNEA accounts.

However, the auditors’ second recommendation is appropriate and all inter-company journals will be reviewed and initialed by the Accounting Manager or the Director of Finance.

Also, beginning with April, a monthly review will be made to ensure that all of the inter-company transactions have been correctly posted and the general ledgers of the Board of Governors and CNEA are in balance.

Conclusion:

This report presents the “Audit Results” document to the Board of Governors of Exhibition Place from Ernst & Young LLP, the external auditors for 2004.
Contact:
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Fax: 416 263-3690
e-mail: PEGLI@EXPLACE.ON.CA

Submitted by:

Dianne Young
General Manager & CEO
Board of Governors of Exhibition Place

Audit Results – Year Ended December 31, 2004

Report to the Finance and Audit Committee

April 8, 2005

ERNST & YOUNG
Quality In Everything We Do
April 8, 2005

Members of the Finance and Audit Committee
of the Board of Governors of Exhibition Place

Dear Members of the Finance and Audit Committee:

We are pleased to present the results of our audit of the consolidated financial statements of the Board of Governors of Exhibition Place ("the Board").

This report to the Finance and Audit Committee summarizes the scope of our engagement, the issues of audit significance discussed with management and provides the communications required by our professional standards.

Our audit was designed to express an opinion on the December 31, 2004 consolidated financial statements of the Board. We considered current and emerging business needs, along with an assessment of risks that could materially affect the financial statements and aligned our audit procedures accordingly. We received the full support and assistance of the organization's personnel and we conducted the audit with the objectivity and independence that you, the entire Board of Directors, and the community expect.

As always, we strive to continually improve the quality of our audit services. This meeting is a forum for you to provide feedback on ways we can continue to meet and exceed your expectations.

This report is intended solely for the use of the Finance and Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate this opportunity to present the contents of this report with you and answer any questions you may have about these or any other audit-related matters.

Very truly yours,

Ernst & Young LLP

Diana Brouwer / Arthur Chen
905-882-3037 / 905-882-3067
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Key Messages - 2004 Audit

- No significant changes to the overall 2004 audit plan (with the exception of substantive vs. control work on parking revenues).
- No adjustments arising from the audit that could either individually or in the aggregate have a significant effect on the financial statements.
- No disagreements with management on financial accounting and reporting matters.
- No significant difficulties encountered in performing the audit.
## Terms of Our Engagement

<table>
<thead>
<tr>
<th>Overview</th>
<th>Discussion</th>
</tr>
</thead>
<tbody>
<tr>
<td>• We performed an examination of your organization’s December 31, 2004 financial statements in accordance with Canadian generally accepted auditing standards. The objective of our audit is to obtain reasonable – not absolute - assurance that the financial statements are free from material misstatement. The preparation of the financial statements and the accompanying notes are the responsibility of management.</td>
<td></td>
</tr>
<tr>
<td>• While the primary objective of our audit examination is to render an opinion on the fairness of the financial statements as a whole, we consider internal accounting procedures and systems of internal controls to the extent necessary to determine our auditing procedures. Our work does not provide assurance on the internal control structure, nor do our procedures necessarily cover all control systems upon which management may be relying.</td>
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<td>• The detailed terms of our engagement are outlined in our engagement letter included in this document.</td>
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<table>
<thead>
<tr>
<th>Your Team</th>
<th>Discussion</th>
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</thead>
<tbody>
<tr>
<td>• Ernst &amp; Young continues to serve you with a team of professionals under the direction of our principal, Diana Brouwer, who offers both industry expertise and a history of involvement with your organization. Their enthusiasm and commitment ensure responsive, innovative and forward looking service focused on your business issues.</td>
<td></td>
</tr>
</tbody>
</table>
Audit Approach

Overview

- Audit risk is influenced by business risk. Our audit scope is developed after considering inherent and control risks in the current environment and the existence of effective internal controls that mitigate those risks. A variety of factors are considered when establishing the audit scope for the organization, including size, specific risks, the volume and types of transactions processed, changes in the business environment, internal audit activity and other factors.

- Ernst & Young will review and evaluate the overall internal control environment and assess the computer environment. We will report in writing to the Finance and Audit Committee any material observations resulting from our audit. Where the audit plan is dependent on understanding or reliance on internal controls, we will document and test the specific internal control. This approach will result in the most effective external audit, providing you with maximum benefits at a lower cost (both in fees and in financial management support time).

- Our understanding of the business and controls provides the basis for our audit risk assessments, and the identification of audit procedures responsive to those risk assessments. Our balanced approach is designed to focus comparatively more audit effort on complex, higher-risk areas than on those assessed as lower risk.

- Consistent with prior years, we took a substantive approach to most aspects of the audit. In other words, we do not rely on controls except in the area of payroll and other disbursements. It is generally more efficient to use audit procedures such as confirmations and analytical review to obtain our audit assurance.

- Our principal areas of focus were:
  - Non-pension post-retirement benefits
  - Gaining assurance on revenue balances
  - Accounting for leases with incremental rents (commonly referred to as “step” leases)
  - Obtaining assurance regarding the collectability of receivables
### Audit Approach (continued)

<table>
<thead>
<tr>
<th>Materiality</th>
<th>Discussion</th>
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<tbody>
<tr>
<td>• Our evaluation of areas of audit significance is made relative to “materiality”. An understanding of what is significant or material in relation to the overall results of your organization is critical to the performance of an effective and efficient audit. An item is considered material if its impact might reasonably be expected to affect the decisions of a reader of the financial statements.</td>
<td></td>
</tr>
<tr>
<td>• The level at which materiality is set affects the following audit planning decisions:</td>
<td></td>
</tr>
<tr>
<td>• extent of evaluation of internal accounting controls</td>
<td></td>
</tr>
<tr>
<td>• extent and nature of audit evidence (i.e., extent of testing) to be examined</td>
<td></td>
</tr>
<tr>
<td>• Materiality for not-for-profit entities is generally measured in terms of a range between 1/2% and 2% of revenues/expenses. This range corresponds with the recommendations in the CICA Handbook guideline which deals with materiality and audit risk.</td>
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</tr>
<tr>
<td>• We have determined that an amount greater than $420,000, which represents approximately 1% of your total revenues of $42.7 million, is considered material. Of course, the final determination of items to be reported is also affected by the item’s sensitivity and whether the item is of a routine nature. For purposes of reporting to the Finance and Audit Committee, amounts greater than $20,000 are addressed.</td>
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</table>

| Use of Specialists                                              | We rely on Mercer Human Resources Consulting for the actuarial valuation of the Board’s employee future benefits.                      |

| Internal Audit/Auditor General | We work closely with the City of Toronto’s Internal Audit Division and the Auditor General’s Office so that we take into consideration, and leverage where appropriate, the work they have performed. |
New Developments in Accounting or Auditing Standards

Each year, we review changes in professional standards, legislation and stakeholder requirements that may have an impact on our audit, including the presentation or disclosure of items in the financial statements, our audit scope, and matters requiring communication.

Discussion

**Employee Future Benefits**
- In March 2004, the AcSB issued new disclosure requirements regarding employee future benefits to enhance and expand the disclosure obligations applicable to such benefits. The amendments do not change existing recognition and measurement standards.
- These new disclosure requirements are effective for fiscal years ending on or after June 30, 2004.
- The financial statements of the Board include the required additional disclosures.

**Generally Accepted Accounting Principles**
- In July 2003, the Accounting Standards Board (AcSB) issued Section 1100, Generally Accepted Accounting Principles, which establishes standards for financial reporting in accordance with generally accepted accounting principles (GAAP) and provides information regarding primary sources of GAAP in order of authority. Industry practice is not included as a primary source of GAAP and is also not included in the discussion of other sources of GAAP. Consequently, industry practice remains acceptable only when it is consistent with the primary sources of GAAP and has been developed through the exercise of professional judgment and the application of the concepts described in Section 1000.
- The provisions of this new section are effective for fiscal years beginning on or after October 1, 2003.
- This new section does not have any current impact on the financial statements of the Board.

**Changes in Accounting Policies and Estimates, and Errors**
- This exposure draft proposes to amend Accounting Changes, Section 1506, such that a change in accounting policy would be made only when it is required by a primary source of GAAP or results in a reliable and more relevant financial statement presentation. The main changes are:
  - to more precisely define when a change in accounting policy is permitted;
  - to specify when application to comparative information is impractical; and
  - to enhance disclosures about the effect of changes in accounting policies, estimates and errors on the financial statements.
- These proposals are expected to be effective for fiscal years beginning on or after January 1, 2005.
- These changes are not expected to have a significant impact on the preparation of the financial statements of the Board. The restatement in the current year statements are properly disclosed and reflected within the 2004 statements.

**Subsequent Events**
- In March 2004, the AcSB issued an exposure draft aimed at amending Section 3820, Subsequent Events and later issued a re-exposure draft in March 2005.
- It is proposed that the period during which subsequent events are required to be considered for disclosure is extended to include events that occur between the date of the balance sheet and the date of authorization for issue of the financial statements in publicly accountable enterprises and for all others, to the date of completion of financial statements with consideration to the release date of events for which management is aware.
- These proposals are expected to be effective for fiscal years beginning on or after June 30, 2006.
- These changes are not expected to have a significant impact on the preparation of the financial statements of the Board.
New Developments in Accounting or Auditing Standards (continued)

Financial Instruments
- On January 27, 2005, the AASB issued typescript copies of the following new Handbook Sections:
  - Section 3855, Financial Instruments – Recognition and Measurement, prescribes when a financial instrument is to be recognized on the balance sheet and at what amount – sometimes using fair value; other times using cost-based measures. It also specifies how financial instrument gains and losses are to be presented.
  - Section 3865, Hedges, provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It builds on existing Accounting Guideline AcG-13, Hedging Relationships, and Section 1650, Foreign Currency Translation, by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.
  - Section 1530, Comprehensive Income, introduces a new requirement to temporarily present certain gains and losses outside net income.
  - The new requirements are effective for fiscal years beginning on or after October 1, 2006.

- Given the nature of the Board’s operations, these changes are not expected to have a significant impact on the preparation of the financial statements.

Asset Retirement Obligations
- In March 2003, the Accounting Standards Board issued CICA 3110, Asset Retirement Obligations, which establishes standards for the recognition, measurement and disclosure of asset retirement obligations and the related asset retirement costs.

- This new section stipulates that a liability for an asset retirement obligations is to be recognized at its fair value in the period in which it is incurred. Upon initial recognition of a liability for an asset retirement obligation, a corresponding asset retirement cost is added to the carrying amount of the related asset which is then amortized into income.

- This new Section is effective for fiscal years beginning on or after January 1, 2004, although earlier application is encouraged. The Section is applied on a retrospective basis with restatement of prior periods, but based on the fair value of asset retirement obligations at the beginning of the fiscal year in which the requirements are first applied.

- These changes are not expected to have a significant impact on the preparation of the financial statements of the organization.

Quality Control
- In August, 2004, the AASB issued new standards and guidance relevant to quality control for assurance engagements at both the firm level and assurance engagement level.

- The proposed standards would establish a framework and provide guidance on the quality control policies and procedures to be established by a firm or legislative audit office that performs assurance engagements with the objective of maintaining and enhancing the quality of performance of assurance engagements by firms. The proposed engagement standards would provide guidance on the specific quality control procedures to be performed by the practitioner and other members of the assurance team in an assurance engagement.

- These new provisions are effective December 1, 2005 to allow for the preparation of detailed implementation guidance and provide practitioners with sufficient time to prepare for their application.
**Other Required Communications**

Generally accepted auditing standards in Canada require the auditor to ensure that the committee of the Board having oversight responsibility for the financial reporting process receives additional information regarding the scope and results of the audit that may assist them in fulfilling their responsibilities.

<table>
<thead>
<tr>
<th>Area</th>
<th>Comments</th>
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<tbody>
<tr>
<td><strong>Auditors' Responsibilities Under Generally Accepted Auditing Standards (GAAS)</strong></td>
<td>We anticipate issuing an unqualified audit opinion dated April 8, 2005 upon approval of the financial statements by the Board of Directors and completion of certain outstanding procedures.</td>
</tr>
<tr>
<td>As set out in the section on audit approach, we designed our audit to express an opinion on your organization’s financial statements.</td>
<td></td>
</tr>
<tr>
<td>The financial statements are the responsibility of management. Our audit was designed in accordance with GAAS which provides for reasonable, rather than absolute, assurance that the financial statements are free from material misstatement.</td>
<td></td>
</tr>
<tr>
<td>As a part of our audit, we obtained a sufficient understanding of the internal control structure to plan our audit and to determine the nature, timing and extent of testing performed.</td>
<td></td>
</tr>
<tr>
<td><strong>Adoption of—or changes in—Significant Accounting Policies</strong></td>
<td>None.</td>
</tr>
<tr>
<td>Initial selection of and changes in significant accounting policies or their application and new accounting and reporting standards during the year must be reported.</td>
<td></td>
</tr>
<tr>
<td>We ensure that the Finance and Audit Committee is informed about the initial selection of, and changes in, significant accounting policies or their application occurring during the year and the reasons for the change.</td>
<td></td>
</tr>
<tr>
<td><strong>Auditors' Judgments About the Quality of Accounting Principles</strong></td>
<td>We did not identify any areas where management's approach to accounting was significantly different from industry practice. We believe that the accounting policies are clear and complete and that they have been applied consistently with the prior year, except for the restatement resulting from an error relating to the omission in recognition of lease revenues with respect to leases with incremental rents.</td>
</tr>
<tr>
<td>The preparation of financial statements may require management to select from more than one acceptable approach to accounting. We comment on the quality, not just the acceptability of accounting principles selected by management, the consistency of their application and the clarity and completeness of the financial statements, including related disclosures.</td>
<td></td>
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*Audit Results – Board of Governors of Exhibition Place*
Other Required Communications (continued)

<table>
<thead>
<tr>
<th>Area</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management Judgments and Accounting Estimates</td>
<td>There are no significant judgments or estimates required to prepare the financial statements where actual amounts are likely to be significantly different from the estimates with the exception of the employee future benefit obligations which are subject to actuarial review.</td>
</tr>
<tr>
<td>Major Issues Discussed with Management Including Accounting for Significant Unusual Transactions</td>
<td>See “Items of Audit Significance Discussed with Management”.</td>
</tr>
<tr>
<td>Significant Audit Adjustments and Uncorrected Misstatements Determined by Management to be material</td>
<td>There were no unrecorded audit adjustments that could, in our judgement, either individually or in the aggregate have a significant effect on the financial reporting process. See “Summary of Audit Differences”.</td>
</tr>
<tr>
<td>Significant Disclosures Not Made</td>
<td>None identified.</td>
</tr>
<tr>
<td>Disagreements with Management on Financial Accounting and Reporting Matters</td>
<td>None.</td>
</tr>
<tr>
<td>Serious Difficulties Encountered in Performing the Audit</td>
<td>None. There were no restrictions placed on the approach to or extent of our work. We have received the full cooperation of the officers and employees and were provided complete and timely access to all books and records, documents and other supporting data which we required.</td>
</tr>
</tbody>
</table>
Other Required Communications (continued)

<table>
<thead>
<tr>
<th>Area</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Material Weaknesses in Internal Controls</td>
<td>No material weaknesses in internal control were discovered during the normal course of the audit that would inhibit our ability to express our opinion.</td>
</tr>
<tr>
<td>Fraud and Illegal Acts</td>
<td>Testing of the financial records and enquiries made of personnel did not reveal any instances of fraud or illegal acts. We are aware of the risk of minor misappropriations of funds which can tend to occur with respect to cash collections during the annual exhibition. We did not deem it necessary to alter any of our audit procedures for these misappropriations.</td>
</tr>
<tr>
<td>Consultation with Other Accountants</td>
<td>None.</td>
</tr>
<tr>
<td>Other Information in Documents Containing Audited Financial Statements</td>
<td>None.</td>
</tr>
<tr>
<td>Related Party Transactions</td>
<td>All related party transactions have been appropriately disclosed to us and are reflected appropriately in the notes to the financial statements.</td>
</tr>
<tr>
<td>Matters Relating to Component Entities of the Organization</td>
<td>These statements include the balances of the Canadian National Exhibition Association. There is nothing, in our opinion that is of further significance to report that is not already covered within this package.</td>
</tr>
</tbody>
</table>

Audit Results – Board of Governors of Exhibition Place 9
Auditors' Independence

Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between your organization and Ernst & Young that, in our professional judgment, may reasonably be thought to bear on our independence.

In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the appropriate provincial institute / ordre and applicable legislation, covering such matters as:

(a) holding a financial interest, either directly or indirectly, in a client;
(b) holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client;
(c) personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
(d) economic dependence on a client; and
(e) provision of services in addition to the audit engagement.

Further, GAAS requires that we must confirm our independence to the appropriate committee of the Board in the context of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

We are not aware of any relationships between Ernst & Young and the Board of Governors of Exhibition Place that, in our professional judgment, may reasonably be thought to bear independence that have occurred from April 8, 2004 to April 8 2005.

We hereby confirm that we are objective with respect to your organization within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of April 8, 2005.

Other Audit and Non-Audit Services Provided to Your Organization

None.

<table>
<thead>
<tr>
<th>Area</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Governors of Exhibition Place</td>
<td>$15,000</td>
</tr>
<tr>
<td>Canadian National Exhibition Association</td>
<td>$10,000</td>
</tr>
<tr>
<td>Canadian National Exhibition Foundation</td>
<td>$5,000</td>
</tr>
<tr>
<td>Computer Conversion testing</td>
<td>$3,000</td>
</tr>
</tbody>
</table>

Fees are inclusive of expenses and GST.
Items of Audit Significance Discussed with Management

During the course of planning and executing our audit, the following items/matters of audit significance were discussed with management:

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Audit Results and Comments</th>
</tr>
</thead>
</table>
| Accounting for step-up leases | - The Board enters into lease agreements where the lessees are required to pay rent on an incremental basis over the lease term, also referred to as “step” leases. In previous years, rental revenues were recognized by the Board as the actual rent receivable became due.  
  - Per CICA Handbook Section 3065.55  
  "Rental revenue from an operating lease would be recognized as income over the term of the lease as it becomes due. However, if rentals vary from a straight-line basis, the income would be recognized on a straight-line basis unless another systematic and rational basis is more representative of the time pattern in which the benefit from the leased property is utilized." | - The Board has made the following restatement to their 2003 consolidated financial statements:  
  An increase to rent receivable and a decrease to receivable from the City of $2,002,285. An increase to building rentals and concessions revenues and a decrease in the transfer to the City of $140,578.  
  - We concur with the adjustments made and the disclosure within the financial statements. |
| Employee future benefits  | - During fiscal 2003, the City of Toronto engaged Mercer’s Consulting to do update an actuarial valuation of employee benefit costs. This valuation was performed as of December 31, 2002 with the information projected forward, for accounting purposes, to December 31, 2004.  
  - The new valuation did not distinguish between employees of the CNEA and those of the Board of Governors of Exhibition Place. As such, management made a pro-ratin based on their best estimates in order to have the appropriate disclosures in the CNEA statements.  
  - The Board fully recognized the impact of the actuarial loss within its 2003 financial statements.  
  - Management confirmed with us, for 2004, there were no new benefits offered that would impact the valuation previously done and as such, we relied on the accounting measurement provided by Mercers for the Board of Governors of Exhibition Place.  
  - In addition, we ensured the Board had all the required information disclosed within the notes to the statements. |
## Items of Audit Significance Discussed with Management (continued)

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Audit Results and Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliance on internal controls over parking revenue</td>
<td>- Due to the exceptions encountered in the testing of parking revenues for the Board of Governors and CNEA, we revised our audit approach to a substantive approach from a control based approach for parking revenues.</td>
<td>- To obtain comfort on the reasonableness of parking revenues we relied on the work of the Internal Audit Division – City of Toronto, because of the effective organizational status; scope of the function; knowledge and competence; and, due care exercised by the group. Those who performed the work on the CNE were designated accountants who performed a complete file. We reviewed the working papers and noted that detailed planning was documented; work performed was comprehensive and well documented; and, conclusions reached were well supported.</td>
</tr>
</tbody>
</table>
| Trigeneration Project / Energy Retrofit Program  | - The Board has been actively working on the study and benefit analysis of a trigeneration plant at the National Trade Centre. The project has involved the Toronto Atmospheric Fund as a partner in the project. The project is currently undergoing equipment tender.  
- The Energy Retrofit program was established as a 2004 debt financed capital project by City Council. The draft report for confirmation study by the design and build contractor is currently in progress. No tender has been issued as of yet. | - We will continue to monitor the status of the project and program and review management's accounting for the impact on the audited financial statements in future years. |
| Computer Conversion                             | - During 2004, the Board underwent a computer systems conversion from QNX to Apogee. | - We have reviewed documents and tested the conversion results to the extent necessary for our audit procedures.  
- We were satisfied with the results.             |
<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Audit Results and Comments</th>
</tr>
</thead>
</table>
| Valuation of National Trade Centre's accounts receivable balances   | • During the course of the audit we noted material balances in accounts receivable from Ricoh Coliseum and the Royal Agricultural Winter Fair. These balances have been outstanding since 2003. | • For balances outstanding from the Ricoh Coliseum, we have reviewed contracts which provides assurances that monies will be withdrawn from Ricoh's accounts to settle any outstanding debts owed to the City of Toronto (and/or its related entities).  
• For the balance outstanding from the Royal Agricultural Winter Fair for 2003, 50% will be paid by the Fair, 25% has been provided for, and the remaining 25% is to be reimbursed by the City of Toronto. We have confirmed these amounts. |
| Changes to Financial Statements                                     | • The significant changes to the 2004 financial statements are as follows:                                                                         | • We concur with the changes made to the 2004 financial statements.                                                                                                                                                        |
|                                                                     | • Restatement of prior year for the accounting of the step-up leases – see note 10 for the restatement details                                             |                                                                                                                                                                                                                           |
|                                                                     | • Note 3 – expansion of the note to show the components of the receivable                                                                       |                                                                                                                                                                                                                           |
|                                                                     | • Note 5 – completely redone to meet the new disclosure requirements                                                                             |                                                                                                                                                                                                                           |
|                                                                     | • Note 9 – expansion of the financial instrument note                                                                                             |                                                                                                                                                                                                                           |
Summary of Audit Differences

During the course of our audit, we accumulate differences between amounts recorded by management and amounts that we believe are required to be recorded under generally accepted accounting principles. Following is a summary of those differences:

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Known Audit Differences:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BOG - Over-accrual of OMERS payable</td>
<td>39,646</td>
<td></td>
</tr>
<tr>
<td>CNEA – Accounts payable</td>
<td>(7,800)</td>
<td></td>
</tr>
<tr>
<td>CNEA – Expensing of capital assets</td>
<td></td>
<td>16,890*</td>
</tr>
<tr>
<td><strong>Likely Audit Differences:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BOG - Under-provision of allowance for doubtful accounts</td>
<td>(81,550)</td>
<td>(22,439)</td>
</tr>
<tr>
<td>CNEA – Overstatement of accounts receivable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NTC – Royal winter fair</td>
<td></td>
<td>(450,000)**</td>
</tr>
<tr>
<td><strong>Total Unadjusted Audit Differences Before Turnaround Effect of Prior Year Differences</strong></td>
<td>(49,704)</td>
<td>(455,549)</td>
</tr>
<tr>
<td><strong>Turnaround Effect of Prior Year Differences in Net Income</strong></td>
<td>165,189</td>
<td></td>
</tr>
<tr>
<td><strong>Total Unadjusted Audit Differences in Income After Turnaround Effect of Prior Year Differences</strong></td>
<td>115,485</td>
<td></td>
</tr>
<tr>
<td>Planning materiality</td>
<td></td>
<td>420,000</td>
</tr>
</tbody>
</table>

*Error does not turn-around.

**Partial turnaround for the portion not provided for or not collected from prior year

- Management has concluded that these differences are not material, either individually or in the aggregate, to the financial statements taken as a whole.

- In evaluating these differences we considered both qualitative and quantitative factors. Materiality is a matter of professional judgment, but as a general rule is judged in relation to the reasonable prospect of an item’s significance in the making of decisions by the readers of financial statements.

- We concur with management’s conclusion that these differences are not material.
Engagement Letter

August 23, 2004

Mr. Jeffrey Griffiths
Auditor General
City of Toronto
Metro Hall
55 John Street, 9th Floor
Toronto, ON M5V 3C6

Dear Mr. Griffiths:

1. This will confirm our statutory engagement to audit and report on the consolidated financial statements of the City of Toronto for the year ending December 31, 2004. The objective of our audit is to express an opinion on the fairness, in all material respects, of the presentation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles.

Audit Responsibilities and Limitations

2. We will conduct our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we obtain reasonable rather than absolute assurance that the consolidated financial statements are free of material misstatement whether caused by error or fraud. As you are aware, there are inherent limitations in the audit process, including, for example, selective testing and the possibility that collusion or forgery may preclude the detection of material error, fraud, and illegal acts. Accordingly, a material misstatement may remain undetected. Also, an audit is not designed to detect error or fraud that is immaterial to the consolidated financial statements.

3. As part of our audit, we will consider, solely for the purpose of planning our audit and determining the nature, timing, and extent of our audit procedures, the City’s internal control. This consideration will not be sufficient to enable us to provide assurance on internal control or to identify all weaknesses.

4. If we determine that there is evidence that fraud may exist, we will bring this matter to the attention of an appropriate level of management and the Auditor General’s Office. If we become aware of fraud involving senior management or fraud (whether caused by senior management or other employees) that causes a material misstatement of the consolidated financial statements, we will report this matter directly to the Auditor General and to the Audit Committee. We will determine that the Audit Committee and appropriate members of management are adequately informed of illegal acts that come to our attention unless they are clearly inconsequential. In addition, we will inform the Audit Committee and appropriate members of management of significant audit adjustments and significant weaknesses noted during our audit procedures.
Canadian generally accepted auditing standards define a significant weakness in internal control as one in which, in the auditor’s professional judgment, the deficiency is such that a material misstatement is not likely to be prevented or detected in the financial statements being audited.

5. We also may communicate other opportunities we observe for economies in or improved controls over the City’s operations. In accordance with standards established by the Canadian Institute of Chartered Accountants, we will communicate certain matters related to the conduct and results of the audit to the City’s Audit Committee. Such matters include, when applicable, disagreements with management, whether or not resolved; difficulties encountered in performing the audit; the auditor’s level of responsibility under professional standards in Canada for the financial statements, for internal control, and for other information in documents containing the audited financial statements; unadjusted audit differences that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole; changes in the City’s significant accounting policies and methods for accounting for unusual transactions or for controversial or emerging areas; our judgments about the quality of the City’s accounting principles; our basis for conclusions regarding sensitive accounting estimates; management’s consultations, if any, with other accountants; and major issues discussed with management prior to our retention.

6. We will communicate to the Audit Committee certain independence matters as required by professional standards.

**Management’s Responsibilities and Representations**

7. The consolidated financial statements are the responsibility of the management of the City, which is also responsible for establishing and maintaining effective internal control, for properly recording transactions in the accounting records, for safeguarding assets, and for the overall fair presentation of the consolidated financial statements. Management of the City also is responsible for identifying and ensuring that the City complies with the laws and regulations applicable to its activities.

8. Management is responsible for adjusting the consolidated financial statements to correct material misstatements and for affirming to us in its representation letter that the effects of any unadjusted audit differences accumulated by us during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole.

9. Management is responsible for apprising us of the existence of any whistle-blower allegations involving financial improprieties received by management, the Auditor General’s Office or the Audit Committee, and providing full access to these allegations and any internal investigations of them, on a timely basis. Allegations of financial improprieties include allegations of manipulation of financial results by management or employees, misappropriation of assets by management or employees, intentional circumvention of internal controls, inappropriate influence on related party transactions by related parties, intentionally misleading the auditors, or other allegations of illegal acts or fraud.

10. As required by Canadian professional standards, we will make specific inquiries of management about the representations contained in the consolidated financial statements. At the conclusion of the audit, we obtain representation letters from certain members of management about these matters. The
responses to those inquiries, the written representations, and the results of our audit tests comprise the evidential matter we will rely upon in forming an opinion on the consolidated financial statements. Management is responsible for providing us with all financial records and related information on a timely basis, and its failure to do so may cause us to delay our report, modify our procedures, or even terminate our engagement.

**Fees and Billings**

11. Our fees, which we will bill as work progresses, are based on our original response to your request for proposal, which stated a fixed fee of $750,000 inclusive of expenses and GST, for the 5-year term of our engagement, which ends with the fiscal year ending December 31, 2007.

12. Our estimated fees and schedule of performance are based upon, among other things, our preliminary review of the City's records and the representations City personnel have made to us and are dependent upon the City's personnel providing the agreed upon level of assistance under the terms of the request for proposal. Should our assumptions with respect to these matters be incorrect or should the condition of the records, degree of cooperation, or other matters beyond our reasonable control require additional commitments by us beyond those upon which our estimated fees are based, we shall promptly notify the City of this situation and with the consent of the City, not to be unreasonably withheld, may adjust our fees and planned completion dates in order to achieve the goal set out in paragraph 1 of this letter.

**Other Matters**

13. You will provide to us copies of the printer’s proofs of your annual report prior to publication for our review. We will review the report for consistency between the annual financial statements and other information contained in the report, and to determine if the financial statements and our report thereon have been accurately reproduced. If we identify any errors or inconsistencies which may impact on the financial statements, we will advise management and the audit committee as appropriate.

14. In addition to reporting on the consolidated financial statements of the City, we will also audit and report on the undemoted financial statements. The fee for these services is included in the $750,000 mentioned in part 7 of this letter. Our comments noted above setting out the terms of our engagement as auditors of the City of Toronto also apply to the entities/work listed below.
Toronto Economic Development Corporation
Toronto Community Housing Corporation
Toronto Parking Authority (including Carpark #161)
Police Museum Reserve Fund
Police Services Board Special Funds
Police Services Board Trust Funds
City of Toronto Sinking Funds
Investment Policy Compliance
City of Toronto Trust Funds
Homes for the Aged Interest Trust Fund
Toronto Board of Health
Various Subsidy Claims

➤ Toronto Public Health
  • Preschool Speech and Language Program
  • Healthy Babies Healthy Children Program
  • AIDS Bureau Program
  • Infant Hearing Program

➤ 10 Homes for the Aged
  • Albion Lodge
  • Bendale Acres
  • Carefree Lodge
  • Castleview Wychwood Towers
  • Cummer Lodge
  • Fudger House
  • Kipling Acres
  • Lakeshore Lodge
  • Seven Oaks
  • True Davidson Acres

➤ Community and Neighbourhood Services – “Supportive Housing and Community Support”
Toronto Coach Terminal, Inc.
Toronto Transit Commission
TTC Insurance Company Limited
Metropolitan Toronto Pension Fund
Police Supplemental Pension Benefits Trust Funds
Toronto Fire Department Superannuation and Benefit Fund
Toronto Pension Fund
Toronto Police Benefit Fund
15. By your signature below, you confirm that the City, through its Council, has expressly authorized you to enter into this agreement with us on the City's behalf.

16. The attached standard terms and conditions form an integral part of this agreement.

To confirm these arrangements are acceptable, please sign one copy of this letter and return it to us.

We very much appreciate the opportunity to serve as the City of Toronto's auditors and would be pleased to furnish any additional information you may request concerning our responsibilities and functions.

Yours very truly,

Ernst & Young LLP

Ernst & Young LLP

The original letter has been signed by the City's Clerks Department and returned to Ernst & Young.

Standard Terms and Conditions
Except as otherwise specifically provided in the engagement letter or contract into which these terms and conditions are incorporated (collectively the "Agreement"), these terms and conditions shall apply to the engagement carried out by Ernst & Young LLP ("EY"). For the purposes of the Agreement the term EY includes EY and its subcontractors and their respective partners, directors, officers and employees.

1. **Timely Performance** - EY will use all reasonable efforts to complete the performance of the services described in the Agreement (the "Services") within the time-frame stipulated. EY will exercise due professional care and competence in the performance of the Services, to the reasonable satisfaction of the Auditor General, CFO and Treasurer. EY shall not be liable for failures or delays in the performance of Services that arise from causes beyond its control, including the untimely performance by client, its representatives, advisors or agents, of its obligations under the Agreement.

2. **Client Responsibilities** - Client will provide to EY in a timely manner complete and accurate information and access to management personnel, staff, premises, computer systems and applications as is reasonably required by EY to complete the performance of the Services.

3. **Confidentiality** - EY shall not at any time before, during or after the completion of the engagement divulge any confidential information communicated to or acquired by EY or disclosed by any of the entities being audited in the course of carrying out the engagement, except as required by law. No such information shall be used by EY on any other project without prior written approval of the client. The client shall take all reasonable steps to maintain the confidentiality of any of EY’s proprietary or confidential information.

4. **Auditor Oversight** - Client hereby acknowledges that EY may from time to time receive requests or orders from the Canadian Public Accountability Board or from professional, securities or other regulatory or governmental authorities, that fulfill similar functions (both in Canada and abroad) to provide them with information, documents and copies of our working papers, and other work-product relating to client's affairs and consents to EY providing or producing, as applicable, this information without further reference to, or authority from, client. EY may also be required to provide information relating to the fees that EY collects from client for the provision of audit services, other accounting services and non-audit services.

5. **Internet Communications** - Unless otherwise agreed with client, EY may correspond by means of the Internet or other electronic media. Because of the inherent risks associated with the electronic transmission of information on the Internet or otherwise, EY does not guarantee the security and integrity of any electronic communications sent or received in relation to this engagement. Whilst it is EY’s policy to check its e-mail correspondence with anti-virus software, EY does not guarantee that transmissions will be free from infection and accepts no responsibility or liability for any damages as a result of communicating by means of the Internet or other electronic media.

6. **Right to Terminate Services** - Either party may terminate this Agreement, with or without cause, by providing written notice to the other party. In the event of early termination, for whatever reason, client will be invoiced for time and expenses incurred up to the end of the notice period together with reasonable time and expenses incurred to bring the engagement to a close in a prompt and orderly manner. EY shall also have the right, upon 7 days prior notice, to suspend performance of the Services in the event client fails to pay any amount required to be paid under this Agreement.

7. **Fees** - Any fee estimates by EY take into account the agreed-upon level of preparation and assistance from client personnel. EY undertakes to advise client management on a timely basis should this preparation and assistance not be provided or should any other circumstances arise which cause actual time to exceed estimated time.
8. **Expenses** - EY will bill for all reasonable expenses. Expenses such as long-distance telephone and telecommunication charges, photocopying, delivery, postage, clerical assistance and micro-computer technology costs are based on a percentage (included within our fixed fee) of our fees for professional services. Other major direct costs such as travel, meals, accommodation and other significant expenses will be charged as incurred.

9. **Billing** - Bills including expenses will be rendered on a regular basis as the assignment progresses. Accounts are due when rendered. Interest on overdue accounts is calculated at the rate noted on the invoice commencing 30 days following the date of the invoice.

10. **Taxes** - The fees, expenses and other charges payable pursuant to this Agreement do not include taxes or duties. All applicable taxes or duties, whether presently in force or imposed in the future, shall be assumed and paid by client without deduction from the fees, expenses and charges hereunder. *[Note that our agreement includes the taxes as noted in the letter – however, for billing purposes the fee will be broken out accordingly.]*

11. **Governing law** - This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein. The parties hereby irrevocably and unconditionally consent to the exclusive jurisdiction of the courts of the Province of Ontario and all courts competent to hear appeals therefrom.

12. **Working Papers/Reports** - EY retains all copyright and other intellectual property rights in everything developed by EY either before or during the course of an engagement including systems, methodologies, software and know-how. EY also retains all copyright and other intellectual property rights in all reports, written advice or other materials (the "Reports") provided by us to client. Audit reports are provided to client in accordance with the provisions of the Municipal Act, 2001 and in particular with section 295 and 296 thereof and EY specifically acknowledges and agrees that the audit reports shall be public records and may be inspected by any person. EY does not assume any duties or obligations to third parties who may obtain access to any Reports. Any use which a third party makes of the Reports, or any reliance on or decisions to be made based on them are the responsibility of such third parties. All working papers and reports will be retained by EY, at its expense, for a term (10) years, unless notified by the Client in writing of the need to extend the retention period.

13. **Limitation of Liability** - In any action, claim, loss or damage (whether in tort, contract or otherwise) arising out of the engagement to which these terms and conditions are attached ("Claim") the parties agree that:

   (a) Subject to the limits set out in subsections 14(b) and 14(c), EY's liability shall be several and not joint and several and EY shall only be liable for its proportionate share of the total liability based on degree of fault;

   (b) Under no circumstances shall EY be liable for damages in respect of any incidental, punitive, special, indirect or consequential loss, even if EY has been advised of the possibility of such damages including but not limited to loss of profits, loss of revenues, failure to realize expected savings, loss of data, loss of business opportunity, or similar losses of any kind; and

   (c) EY's total liability for any Claim arising out of the performance of the Services, regardless of the form of Claim, shall in no event exceed an amount equal to the greater of (i) the total fees paid to EY for the Services; and (ii) $2,000,000. This clause shall not limit EY's liability for death, personal injury or property damage caused by the negligent acts or omissions of EY and its partners and staff, or for loss or damage caused by their fraud or wilful misconduct.

14. **No Application** - Paragraph 13, or any portion of it, shall have no application to any liability for which exclusion or restriction is prohibited by law.

*Audit Results – Board of Governors of Exhibition Place*
15. Solicitation & Hiring of EY Personnel – EY's independence could be compromised if client were to hire certain EY personnel. Without the prior written consent of EY, client shall not solicit for employment or for a position on its Board of Directors, nor hire, any current or former partner or professional employee of any of EY, any affiliate thereof or any other EY entity, if such partner or professional employee has been involved in the performance of any audit, review, attest or assurance service for or relating to client at any time since the date of filing of client's most recent financial statements with the relevant securities regulator(s) or stock exchange(s) (or, if the Company has not previously filed such financial statements, since the beginning of the most recent fiscal year to

16. Severability - If any of the provisions of these terms and conditions are determined to be invalid or unenforceable, the remaining provisions shall remain in effect and be binding on the parties to the fullest extent permitted by law.

17. Global Resources - From time to time EY may use the services of partners or staff from other member firms of Ernst & Young Global Limited ("EYG") or Ernst & Young International Ltd. ("EYI") to assist it in providing Services. When the services of such partners or staff are used in connection with Services provided pursuant to this Agreement they are deemed to be acting as EY’s agents and not the partners, servants or agents of any other person (including any other member of EYG or EYI or EYG or EYI themselves) and EY shall assume liability for their activities as if they were in all respects the partners or staff of EY. Client agrees that any claim of any kind whatsoever, whether in contract, tort or otherwise, arising out of or in connection with this Agreement shall be brought only against EY and that no claims shall be brought personally against any persons involved in performance of the Services pursuant to this Agreement, whether actual or deemed servants or agents of EY or not, and the Client agrees not to bring any proceedings of any kind whatsoever arising out of or in connection with this Agreement in any jurisdiction against EYG, EYI or any other member firm of EYG or EYI or any partner or personnel thereof.

18. Proceeds of Crime (Money Laundering) and Terrorist Financing Act – Pursuant to this legislation, all accountants and securities dealers (including those providing portfolio management or investment counselling services) in Canada are required, in certain circumstances, to report any "suspicious transactions" to the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), a government agency. Suspicious transactions are transactions which may relate to money laundering and the financing of terrorist activities.

19. Legal Proceedings - In the event EY is requested or authorized by client or is required by government regulation, subpoena, or other legal process to produce documents or personnel as witnesses with respect to the engagement for client, and provided that EY is not a party to the legal proceedings, client shall reimburse EY for reasonable professional time and expenses, as well as the reasonable fees and expenses of counsel, incurred in responding to such requests provided that such requests do not fall within the scope of this engagement.

20. LLP Status – EY is a registered limited liability partnership ("LLP") continued under the laws of the province of Ontario. A partner of an LLP has a degree of limited liability protection in that he or she is not personally liable for any debts, obligations or liabilities of the LLP that arise from the negligence of another partner or any person under that partner's direct supervision or control. As an LLP, EY is required to maintain certain insurance. EY's insurance exceeds the mandatory professional liability insurance requirements established by the various Institute/Orders of Chartered Accountants across Canada.
21. **Miscellaneous** - EY shall provide all Services as an independent contractor and nothing shall be construed to create a partnership, joint venture or other relationship between EY and client. Neither party shall have the right, power or authority to obligate or bind the other in any manner. This Agreement shall not be modified except by written agreement between the parties. The Agreement represents the entire and sole agreement between the parties. Any terms and provisions of this Agreement that by their nature operate beyond the term or expiry of this Agreement shall survive the termination or expiry of this Agreement, including without limitation those provisions headed Confidentiality, Auditor Oversight, Limitation on Liability, Solicitation & Hiring of EY Personnel and Legal Proceedings.

22. **Other Relevant Documents** – The terms and conditions contained in the Request for Proposal No. 9155-03-7140 and the Proposal by EY in response to R.F.P. No. 9155-03-7140 are incorporated into and form a part of this agreement. In the event of any inconsistency between the terms of the documents which make up this agreement, the following shall be the order of priority of the documents to the extent of any inconsistency:

1. The Engagement Letter;
2. The Standard Terms and Conditions
3. the Proposal by EY referred to above;
4. R.F.P. No. 9155-03-7140
Independence Letter

April 8, 2005

The Finance and Audit Committee of the
Board of Governors of Exhibition Place
100 Princess Boulevard
Toronto, ON M6K 3C3

We have been engaged to audit the consolidated financial statements of the Board of Governors of Exhibition Place and the non-consolidated financial statements of the Canadian National Exhibition Association and the Canadian National Exhibition Foundation, collectively known as "the Entities" for the year ending December 31, 2004.

Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between the Entities and us that, in our professional judgment, may reasonably be thought to bear on our independence.

In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the appropriate provincial institute / ordre and applicable legislation, covering such matters as:

(a) holding a financial interest, either directly or indirectly, in a client;
(b) holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client;
(c) personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
(d) economic dependence on a client; and
(e) provision of services in addition to the audit engagement.

We have prepared the following comments to facilitate our discussion with you regarding independence matters.

We are not aware of any relationships between the Entities and us that, in our professional judgment, may reasonably be thought to bear on our independence, that have occurred from April 8, 2004 to April 8, 2005.
GAAS require that we confirm our independence to the audit committee in the context of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario. Accordingly, we hereby confirm that we are independent with respect to the Organization within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of April 8, 2005.

This report is intended solely for the use of the Finance and Audit committee, the board of directors, management, and others within the Entities and should not be used for any other purposes.

Very truly yours,

[Signature]

Diana Brouwer / Arthur Chen
905-882-3037 / 905-882-3067
April 8, 2005

Members of the Finance and Audit Committee
of the Board of Governors of Exhibition Place

As part of our examination of the financial statements of the Board of Governors of Exhibition Place for the year ended December 31, 2004, we studied and evaluated the system of internal control to the extent we considered necessary under Canadian generally accepted auditing standards for the purpose of expressing our opinion on the financial statements. This was done to establish a basis for reliance on the system in determining the nature, timing and extent of our auditing procedures necessary to enable us to express an opinion on the financial statements and to otherwise assist us in planning and performing our audit. The study was not designed to determine whether the system of internal control is adequate for management’s purposes.

Our examination of the financial statements, including our study and evaluation of the system of internal control, will not necessarily disclose all conditions requiring attention because the audit employs, as is customary, selected tests of accounting records and related data. Our study and evaluation disclosed no condition that we believed to be a material weakness but did disclose certain areas for which we believe further review by management is warranted.

All suggestions and comments outlined in the attached memorandum concern systems, accounting or business matters and are not intended to reflect in any way upon your personnel.

We would like to take this time to thank the staff for their assistance and cooperation during the audit. We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Very truly yours,

Diana Brouwer / Arthur Chen
905-882-3037 / 905-882-3067
Management Letter Points:

Payroll Procedures

Observation and Recommendation:

Our audit observations indicated that the approval of payroll figures are done online through Apogee before being transmitted to ADP. We understand that payroll data is transmitted to ADP electronically and the output from ADP is compared to Apogee afterwards. Our review of the output did not show evidence that the payroll data has been reviewed for accuracy after transmission by a signature on the hardcopy printouts. We understand that this is being done, but without the signature there is no trail. In addition, the requirement of a signature also improves the organization’s controls by ensuring that the individual who is responsible for the review has in fact done the work.

Lack of approval for payroll figures may result in inaccurate or unauthorized payments to employees.

We recommend that payroll figures are reviewed after transmission to ADP and that the hard copy ADP payroll register is signed off to indicate that a proper review was completed. Ideally this review of the ADP payroll register should be performed by an individual who is independent of the payroll processing function.

Management's Comments:

As noted above, the payroll process presently requires verification of the electronic record sent and received from ADP by the payroll supervisor.

The hourly payroll, which is issued weekly, is prepared by the payroll staff and will be reviewed by the Payroll Supervisor. The Payroll Supervisor will also sign the summary page for the payroll register which shows all of the cheques and direct deposits produced on the payroll.

The salaried payroll, which is paid every two weeks, is prepared by the Payroll Supervisor and will be reviewed by the Director of Finance. The Director of Finance will also sign the summary page for the payroll register which shows all of the direct deposits produced on the payroll.

Non-standard Journal Entries

Observation and Recommendation:

The Board uses two separate general journals for the Board of Governors of Exhibition Place and CNEA. Although there are two separate general journals, the Board uses one numerical sequence of journal entries. These non-standard journal entries are held by two separate individuals.

Audit Results – Board of Governors of Exhibition Place
By having two sets of general journals utilizing one numerical sequence, it is difficult to obtain comfort that the sequence of journal entries is complete.

We recommend that two separate numerical sequences be maintained for the two separate entities. As well, we recommend that these journal entries be filed in a central location and not with an individual.

Management’s Comments:

The Finance Division of Exhibition Place provides accounting services for the Board of Governors and the Canadian National Exhibition Association and owing to the structure of many payroll and work orders it is necessary to prepare accounting entries that affect both entities simultaneously. In addition some cheques are paid to vendors where the accounting ledgers of both organizations are charged by the same transaction.

For these reasons it would not be technically possible to adopt the auditor’s first recommendation of having separate numerical sequences for the journals of each organization. A significant number of the journals represent inter-company transactions as noted above which affect both entities simultaneously.

However the auditor’s second recommendation is reasonable and will be adopted. Copies of all the journals will be filed in numerical sequence in a central location with all of the appropriate back up material.

Journal entries

Observation and Recommendation:

Currently on the APOGEE system employees are capable of posting one entry partly into general ledger of the Board and partly into the Canadian National Exhibition Association. As a result when employees post inter-company transactions the general ledgers become out of balance. To compensate for this, employees have been instructed to post inter-company transactions to inter-company accounts. To further mitigate this factor the Director of Finance reconciles the general ledgers at the end of the year; however, this process is time consuming and may still result in errors.

The result of this is such that journal entries may be incorrectly posted. This could cause transactions to be inappropriately recorded in the general ledger leading to a misstatement in the financial statements.

We recommend that logical access to the general ledgers be restricted. Only employees whose job functions require access to the general ledger of a specific entity should be allowed to post entries to the general ledger of that entity. Furthermore job functions should be segregated so that employees do not post entries to both entities. The Director of Finance or other competent, knowledgeable staff should be responsible for posting complex transactions including inter-company transactions. Additionally if appropriate job segregation is not possible all inter-company transactions and similar complex transactions should be reviewed by the appropriate level of management (i.e. Director of Finance).
Management’s Comments:

We can appreciate the auditors’ concern about posting journal entries because 2004 was not a typical year for the organization. A new financial and accounting system was implemented in March 2004 and the closing of the books and the reconciliation of the various accounts in 2004 was more complex and required more journal adjustments than in previous years.

The auditor’s observation about the necessity for posting journals into both the Board of Governors and the CNEA accounting records simultaneously is true and, as explained above, is an integral part of the inter-company transactions that occur between the two organizations for payroll, work orders and other activities. For example, during the period of the annual Canadian National Exhibition, Board cleaning staff provide a service to the CNEA, and their wages, in the first instance are charged to a Board compensation account. Subsequently, by an inter-company transaction, the full cost of the cleaning services is transferred to the CNEA.

Board accounting staff responsibilities are divided along functional lines such as accounts payable and payroll, because this is the most efficient operational structure whereby in the winter accounts payable staff are busy with Board/NTC accounts and in the summer with CNE accounts. To have to reorganize the staff not only by functional lines but also by programs has would likely require increase in account staffing. Therefore, it would be very difficult to adopt the auditors’ recommendation of giving only certain staff access to the CNEA accounts.

However the auditors’ second recommendation is appropriate and all inter-company journals will be reviewed and initialed by the Accounting Manager or the Director of Finance.

Also, beginning with April, a monthly review will be made to ensure that all of the inter-company transactions have been correctly posted and the general ledgers of the Board of Governors and CNEA are in balance.