



EXHIBITION PLACE

January 12, 2004

To: The Board of Governors of Exhibition Place

From: Dianne Young
General Manager & CEO

Subject: Hot Air Balloon Attraction at Exhibition Place

Recommendation:

It is recommended that the Board approve an amendment to the license agreement with Aerophile S.A. ("Aerophile") for the operation of a hot air balloon attraction at Exhibition Place as set out in this report.

Background:

At its meeting of November 2002, the Board approved of entering into a Letter Agreement with Aerophile S.A. ("Aerophile") for a three-year licence agreement for the operation of a hot air balloon attraction at Exhibition Place at a base rent of \$50,000. City Council at its meeting of November, 2002 approved a minor variance to the City sign by-law thereby allowing the balloon (with advertisement) to operate at Exhibition Place. Subsequently the parties entered into a Letter Agreement on the terms and conditions approved by the Board. One of the terms of the Letter Agreement included a due diligence period that expired in February 2002 but was extended by the Board at its meeting of May, 2003 to December 31, 2003.

Discussion:

Aerophile is a registered aircraft manufacturer located in Chantilly, France that has been in operation since 1993, and is the world's leading operator of tethered balloons used for entertainment and amusement purposes. Regarded as a major tourist attraction, the "Aero 30" hot air balloon has been operating in Japan, Switzerland, China, Australia, France, Germany, Austria, Italy and the United States and, in 2003, Aerophile began construction at the Museum of Aviation in Ottawa, Canada which will commence operations in 2004.

The "Aero 30" looks like a typical hot air balloon, with one important distinction – it is controlled by a hydroelectric winch and cable system that ensures greater stability, safety and control of the hot air balloon and attached gondola. Unlike typical hot balloons with a basket or gondola that accommodate the pilot and 4 to 6 passengers, the "Aero 30" features a polyester and aluminum gondola designed to accommodate 30 passengers.

The hydroelectric winch system that controls both ascent and descent can manage a maximum of six flights per hour to an altitude of 150 metres in wind speeds as high as 35 km/h. The balloon is regarded as an aircraft and is required to meet the all Transport Canada safety regulations, as are the pilots and crew.

As a tourist attraction, the "Aero 30" at Exhibition Place would provide the public with a unique opportunity to view the City of Toronto and Lake Ontario from the comfort and safety of the balloon's gondola. At an altitude of some 300 feet, it would be a visible and attractive landmark that would draw visitors to the grounds. Some photographs of balloons operating in other countries are attached to this report as Appendix "A".

The due diligence period provided in the Letter Agreement allowed Aerophile the opportunity to secure a title sponsor for the balloon, which is critical to the financial viability of the project, and to secure all necessary operating permits and licenses. Aerophile has received notice from Transport Canada and NavCan that it has met all navigational requirements to operate the balloon attraction at Exhibition Place at the site west of the Food Building. Aerophile has also secured a title sponsor, however, the value of the sponsorship agreement is less than was originally projected, and Aerophile is requesting consideration of an amendment to the Percentage Rent clause of the Letter Agreement.

Aerophile's original proposal suggested that it could secure a title advertising sponsor for \$900,000.00 per year. However, after spending a year working with consultants, advertising agencies, and outdoor media companies such as Viacom, Aerophile finalized negotiations with Computerland.ca for a three-year sponsorship of the balloon for an annual fee of \$300,000.00 plus a percentage rent formula that is linked to sales growth of products sold through Computerland.ca.

The Percentage Rent included in the Letter Agreement contemplated a payment to the Board of 20% of annual gross revenues in excess of \$1,000,000.00 which assumed \$900,000.00 in sponsorship revenues. With the substantial reduction in sponsorship revenues, Aerophile has proposed a revised Percentage Rent formula based on the financial proformas for the balloon and its capital cost. The amended Percentage Rent negotiated with Aerophile and being recommended by staff is as follows:

- a) Year 1 – Percentage Rent waived;
- b) Year 2 & 3 – Pay Percentage Rent on 15% of all gross revenues in excess of \$700,000.00

As a result of this recommended amendment the financial return to the Board would be as follows:

- (c) Year 1 - \$50,000.00 annual Base Rent payable to the Board; payment of commission to CNEA during the CNE period when Aerophile will operate under a CNEA licence; parking revenues to the Board estimated at \$20,000.00 based on Aerophile's projected attendance; and,

(d) Years 2 & 3 – In addition to the Base Rent and commission to the CNEA noted above, the payment of Percentage Rent of 15% of all gross revenue in excess of \$700,000.00 (estimated to be \$60,000.00 annually) the calculation of which will not include gross revenues generated during the annual CNE; and parking revenues to the Board estimated to be \$35,000.00 based on Aerophile's projected attendance.

Accordingly, staff recommends that the Board approve the amended terms and conditions. If approved by the Board, staff will proceed to finalize the Licence Agreement and construction of the project will begin with a commencement date of May 1, 2004 for a term of three years.

Staff has discussed this attraction with the CNE, and Mr. David Bednar reported on this matter directly to the CNEA Board of Directors in 2003 on the terms and conditions of a separate agreement with Aerophile to operate during the CNE period.

Staff has also discussed this attraction with the Molson INDY and while Aerophile is aware that the Molson INDY is not obligated to permit the "Aero 30" to operate during their race event, preliminary discussions indicate that Molson INDY would also be interested in including this attraction in their event.

Conclusion:

This report recommends that the Board amend the Percentage Rent term of the agreement between the Board and Aerophile for a hot air balloon attraction at Exhibition Place with a three-years term to commence May 1, 2004, as set out in this report.

Contact:

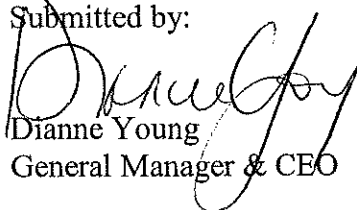
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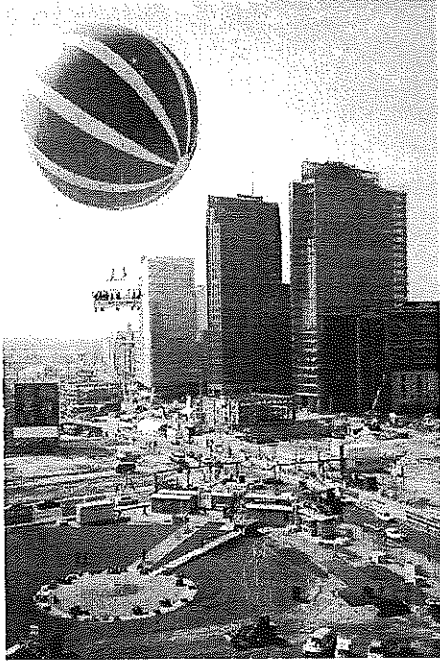
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Submitted by:


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Appendix "A"



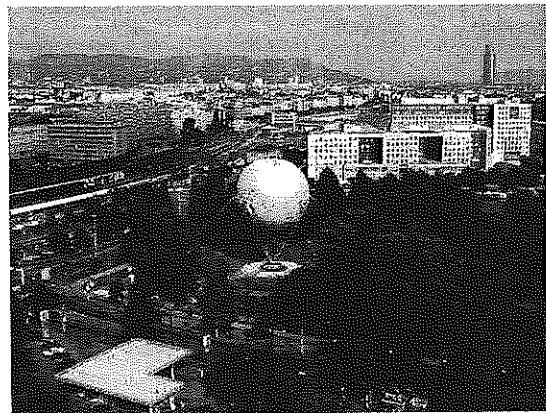
Aero 30 flight in Berlin, 2000



Aero 30 flight in **Huis Ten Bosch (Japan), 2001**



Aero30 flight in Bordeaux, 2001



Aero 30 flight in Vienna, 2000