

EXHIBITION PLACE

September 13, 2004

To: The Board of Governors of Exhibition Place

From: Dianne Young
General Manager & CEO

Subject: Aerophile Lease - Request for Amendment

Recommendation(s):

This report recommends that the Board amend the lease with Aerophile S.A. for the operation of the helium-filled attraction at Exhibition Place on the terms and conditions as contained in this report, and any other terms as may be required by the General Manager and the City Solicitor.

Background:

At its meeting of November 2002, the Board approved entering into a Licence with Aerophile S.A. ("Aerophile") for a three-years for the operation of a helium-filled 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 advertising) to operate at Exhibition Place. At its meeting of May, 2003, the Board extended the due diligence to December 31, 2003. In January 2004, the Board approved amendments to the Licence to waive Percentage Rent in Year 1 and during the period of the annual CNE for as long as Aerophile is remitting a commission from their operation directly to the CNE; and, to adjust the amount of gross sales upon which Percentage rent would be calculated in Years 2 and 3 of the Term.

Discussion:

Since Aerophile first approached the Board, they have suffered the following setbacks:

- it took much longer than expected to secure a title sponsor;
- the value of the title sponsorship was less than they had originally forecasted;
- it took significantly longer than expected to receive full approvals and clearances from Transport Canada and NavCan as this is literally the first helium-filled and tethered balloon attraction to operate in Canada;
- there were delays in converting the European specifications to meet Canadian Building and Standards codes; and

- an affiliation with a Canadian partner did not happen until mid-2003 causing a delay in finalizing business agreements, financing, etc.

Aerophile successfully addressed and resolved each of these issues and finally launched the "Computerland.ca" helium-filled balloon attraction on June 29, 2004 – less than two weeks prior to the 2004 Molson INDY. At that same time, the final installation for the INDY's race track, seating and grandstands, attractions, and entertainment and displays were well underway and the Balloon found it very challenging to attract outside parties through the site to their attraction. The later opening also meant that discussions and negotiations with Molson INDY were stalled and only completed within hours of the opening of the INDY and required Aerophile to pay INDY a commission on gross sales to operate during that event.

Several other issues beyond the control of Aerophile, such as poor weather, low tourist attendance in the City, and the cancellation of the 2004 Bluesfest all contributed to significantly lower sales than their original projections indicated.

Despite these set-backs, Aerophile has communicated that it is still fully committed to the project – the attraction has been very well received during both the Molson INDY and the CNE and indications are that it will continue to expand its business as awareness grows. It is, however, suffering severe financial setbacks and staff has met with them on several occasions to explore what assistance the Board can offer.

As a result of those discussions, staff recommends that the Board approve the following amendments to the licence with Aerophile for the continued operation of the helium-filled balloon attraction for the balance of the first Term which continues until June 2007 but not any renewal term:

- (a) Base Rent: waive the Base Rent which would be payable in July annually during the period of the final installation and race of the Molson Indy (given the difficulty in entry to the site and the commission to be paid by Aerophile to INDY), and, waive the Base Rent which would be paid in August annually during the CNE, given the commission paid by Aerophile to the CNE. These amendments will reduce the annual Base Rent accordingly from \$50,000 to \$41,667.00. This is the equivalent to two month's rent-free annually during the balance of term of the Licence;
- (b) Special Conditions: the Rent Free period as set out in (a) above is valid only for as long as the Canadian National Exhibition and the Molson INDY continue to operate their events at Exhibition Place in a manner that interferes with access to and from the helium-filled balloon attraction; and the Rent Free period for 2004 be applied to the 2005 operating period.

Conclusion:

This report recommends that the Board amend the licence with Aerophile for the operation of the helium-filled attraction at Exhibition Place on the terms and conditions set out in this report and any other terms as may be required by the General Manager & CEO and the City Solicitor which amendments would result in a reduction in annual rent of \$8,333.

Contact:

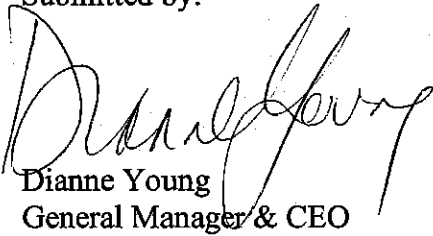
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Submitted by:



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