

Item No. 14.3
Halifax Regional Council
September 24, 2013

TO: Mayor Savage and Members of Halifax Regional Council
Original Signed

SUBMITTED BY: _____
Councillor Bill Karsten, Chair, Audit and Finance Standing Committee

DATE: September 18, 2013

SUBJECT: **Operational Review – Halifax Metro Centre**

ORIGIN

A motion approved by the Audit and Finance Standing Committee at a meeting held on September 18, 2013.

LEGISLATIVE AUTHORITY

Terms of Reference of the Audit and Finance Standing Committee Section 3.2 – Finance and Risk Management.

RECOMMENDATION

The Audit and Finance Standing Committee recommend that Halifax Regional Council direct staff to enter into negotiations with TCL regarding the commission received from Ticket Atlantic.

BACKGROUND

At its September 18, 2013 meeting, the Audit and Finance Standing Committee received a staff report, dated August 30, 2013 outlining the Operational Review of the Halifax Metro Centre.

DISCUSSION

The committee reviewed the report presented and approved the recommendation as outlined in the attached report, dated August 30, 2013.

FINANCIAL IMPLICATIONS

As outlined in the attached staff report, dated August 30, 2013.

COMMUNITY ENGAGEMENT

Audit and Finance Standing Committee meetings are open to public and all agendas, reports and minutes are available on the web in advance of meetings.

ENVIRONMENTAL IMPLICATIONS

There are no environmental implications associated with this report.

ALTERNATIVES

The Audit and Finance Committee did not provide an alternative.

ATTACHMENTS

1. Operational Review – Halifax Metro Centre dated August 30, 2013.

A copy of this report can be obtained online at <http://www.halifax.ca/council/agendasc/cagenda.html> then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

Report Prepared by: Sherryll Murphy, Deputy Municipal Clerk (490-4211)



P.O. Box 1749
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Item No.
Audit & Finance Standing Committee
September 18, 2013

TO: Chair and Members of Audit & Finance Standing Committee

SUBMITTED BY: Original Signed

Richard Butts, Chief Administrative Officer

DATE: August 30, 2013

SUBJECT: Operational Review – Halifax Metro Centre

ORIGIN

July 18, 2012 Auditor General Report “Review of the Transfer of Box Office Operations from the Halifax Metro Centre to Trade Centre Limited”

Motion of the Audit and Finance Standing Committee of July 18, 2012 to “Undertake a comprehensive review of the operations of the Halifax Metro Centre, including a specific review of the box office operations, the commission structure and the cost allocation process in place.”

LEGISLATIVE AUTHORITY

Halifax Regional Municipality Charter, including Section 79 1(k) and (x).

RECOMMENDATION

It is recommended that Halifax Regional Council direct staff to enter into negotiations with TCL regarding the commission received from Ticket Atlantic.

BACKGROUND

On July 18, 2012, the Auditor General presented a report entitled “Review of the Transfer of Box Office Operations from the Halifax Metro Centre to Trade Centre Limited” to the Audit and Finance Standing Committee. The report raised concerns regarding the creation of Ticket Atlantic, and the outsourcing of the Metro Centre box office to Ticket Atlantic. Related to this, the report also questioned the calculation of the commission paid to Metro Centre by Ticket Atlantic.

The Committee moved that an independent review of Metro Centre operations be commissioned

to address some of these concerns. The specific recommendations from the report to be addressed by the review are:

2.4.1	HRM Administration review all existing contracts for services provided to the Halifax Metro Centre to determine if there are other instances where Trade Centre Limited is named on an agreement for services normally associated with the Halifax Metro Centre. If so, these agreements should be amended so the Halifax Metro Centre is named after the appropriate approvals are obtained.
3.2.1	Based on the lack of clarity regarding previous and current financial contributions of the box office operations business line, the OAG recommends HRM undertake a full and detailed review of the financial reporting of Halifax Metro Centre results, with specific emphasis on box office contributions.
3.2.2	HRM undertake a full and detailed review of the financial results of operations of the Halifax Metro Centre from 2004/05 to current to gain a more complete understanding of costs actually incurred as well as allocated, and the overall results and various trends in operations. The work should be completed by an individual with specific expertise in these types of analysis.
3.2.4	When completing Recommendations 3.2.1 and 3.2.2, HRM also confirm the amounts Halifax Metro Centre was charged in relation to the Vendor X system and the expanded business model. If there were, in fact, any duplicate or non-specific charges incurred by Halifax Metro Centre, HRM should seek to recover these from Trade Centre Limited.
3.3.1	HRM negotiate a contract with Trade Centre Limited governing commission payments for tickets to Halifax Metro Centre events. This negotiated commission structure should follow from a full and robust assessment of all possible structures (i.e. including possibilities such as minimum charges or profit sharing, with the best value to HRM being the goal) and reflect the substantive business received from the Halifax Metro Centre. It should not simply be an exercise in documenting the current arrangement.
3.3.2	Given the circumstances which gave rise to the existing arrangement, the OAG recommends any revised commission calculation be applied, to the extent possible, retroactively to April 1, 2006.
3.3.4	HRM investigate all ticketing options available to the Halifax Metro Centre. On the basis Trade Centre Limited is a supplier in or of this business, the OAG recommends their participation be minimal in order to ensure impartiality and transparency.
3.5.1	HRM agree, as part of the ongoing changes to the Memorandum of Understanding governing Trade Centre Limited’s management of the Halifax Metro Centre, which specific costs incurred by Trade Centre Limited can be allocated to the Halifax Metro Centre and the calculation to be used to arrive at the amount. HRM’s Legal Services should be fully involved in this negotiation so any resulting agreement is properly documented in such a way as to ensure HRM’s interests are protected.
4.0.3	Although outside the scope of this project, the following recommendation arises due to work done within the scope of the project. Given many of the issues raised during the preparation of this report, the OAG recommends HRM Administration consider engaging an external review of Halifax Metro Centre operations to ensure it is being managed to derive the greatest return for HRM.

We engaged Grant Thornton through an RFP process. Their report is attached.

DISCUSSION

Specific Recommendations

2.4.1 Halifax Metro Centre (HMC) is not a legal entity, and is not named as a party to any contracts. Trade Centre Limited (TCL) is responsible for the operations of the Metro Centre as per agreement, currently being renewed. All contracts of an operational nature, including contracts with clients, are in the name of TCL. The HRM is not a party to any of these. Since the audit, the reserve for capital maintenance has been moved to the HRM, and contracts are managed through the HRM procurement processes. New procedures put in place since the audit and documented in the draft MOU, are in place for major agreements, such as the upcoming naming rights process.

3.2.1 Part II of the report contains the review of the box office operation.

- With the exception of the 2009 year when the World Juniors were hosted, the arrangement seems to be a reasonable tradeoff between forgone revenue and risk transfer.
- The commission formula reduces HMC commissions in high attendance years, yielding the significant forgone revenue in 2009.

3.2.4 The costs for acquiring and maintaining the ticketing system were not charged to HMC, but were paid by TCL.

Findings

Financial review

1. **Industry trends** – the financial performance of sports and entertainment centres is driven largely by the mix of user groups, including an anchor tenant, and by large events. Over the past five years, sport tourism revenues in Canada have grown; however, competition for the large events is intense. As a result, the financial performance of individual facilities has been challenged.
2. **Trend analysis** – our analysis of the financial results indicates that the gross revenue has ranged from \$6.3 M to \$8.9 M between 2005 and 2012. Revenue fluctuated depending on the number and nature of events hosted. For example, the Men's World International Ice Hockey Tournament resulted in facility rentals, event recoveries, and food and beverage commission income of \$756,000 in the 2009 fiscal year. Special events and longer Moosehead playoff runs increase revenue in any given year. Expenses have been in the range of \$2.9 M to \$3.7 M, including salaries and benefits of \$1.5 to \$2.1 M. HMC has

shown a profit in each year (after normalizing for the bad debt for an unrecoverable advance to a concert promoter funded by HRM) in the range of \$2,717 to \$821,142. **The fact that the HMC is profitable makes it unique when compared to other public comparable facilities where operating losses are common.**

3. **Allocation of costs** – our review of the methodology and types of expenses allocated by TCL to HMC indicated that there was consistency in the types and amounts of expenses allocated. The property managed by TCL includes the Office Tower and Convention Centre (276,270 square feet) and the Metro Centre (205,000 square feet) for total square feet of 481,270. The HMC portion by Halifax Regional Municipality square feet is 42.6% and allocations are based more on usage or estimates than actual square feet pro rata shares. Several of the employees of TCL have worked there since the construction of the Metro Centre and the Convention Centre and estimates of cost allocations were based on reasonable assumptions and calculations. Major expenses for the shared plant (energy, salaries, repairs, etc.) were based on experience and shared on a basis that was felt to be fair and equitable. Salaries and benefits were shared on the basis of time spent working on either HMC or TCL activities. These estimates were determined after consultation and discussions by the management team. There were no indications that these estimates were not felt to be reasonable by TCL staff. Prior to 2011 there was no documentation of the allocation methodology or how the policy was applied. Since 2011 the allocation of expenses has been documented in more detail by TCL staff. There have been no significant changes in the amounts or types of expense allocated in the period under review. Based on our review the major expense categories (shared plant costs, salaries and benefits, and other) have been allocated on a consistent basis. We do believe that there are likely some other overhead costs (technology costs – cell phones, and administrative overhead) that could have been allocated as proper business expenses in addition to the expenses already allocated.
4. **Salaries** – the total amount of salaries allocated (plant and administrative) for a facility the size and nature of HMC is comparable to other venues reviewed, on the basis of total salaries to total revenue. While the number of employees varies compared to the other facility information we obtained, the resulting costs when viewed on a total basis compared to the revenue generated are comparable. TCL tends to hire more part time employees on a paid basis whereas other facilities operate with volunteers for their part-time staff. While it is difficult to compare the exact role and responsibilities for TCL to other comparable facilities in respect of the size and scale of the operations and events hosted, the level of salaries for key management positions is comparable for similar responsibilities in other segments of the Nova Scotia market place.
5. **Comparison to other facilities** – HMC financial results compare positively to other facilities we reviewed. As illustrated in Part I of this report, HMC realized revenue per

event day and income per event day above that realized by the six comparable venues, on average. In fact, three of the six venues reviewed had operating losses in 2011/2012.

Box Office review

1. The Box office was operated by HMC up until 2007 when responsibility for ticket sales was transferred to Ticket Atlantic. As reported by the HRM Auditor General, neither TCL nor HRM were able to provide documentation to support the approval for the transfer of the Box Office from HMC to the rebranded Ticket Atlantic operation. There is also no support for the determination of the pricing on a per ticket basis for the commission paid to HMC on the sale of individual tickets. Our financial analysis shows that there were profits reported by Ticket Atlantic in excess of the amount of Commissions paid to HMC in each year since 2005, except for 2011. The Box Office Income foregone since the transfer of operations has averaged \$84k per year, but this is driven by strong financial results for Ticket Atlantic in 2009. The average results for years other than 2009 is that the HMC has received \$23k more through commissions than would have been generated if the Box Office had been retained, assuming the fixed costs for a retained Box Office would be equal to the actual fixed costs incurred by Ticket Atlantic.
2. We reviewed the process and policies for issuing Complimentary tickets for HMC events. There are policies in place that require these tickets to be used appropriately for bona fide purposes. These tickets are for Premium Box seating (included in annual contract fees), HMC use, and Promoter use only. Based on our review we believe that Complimentary tickets are issued as a normal business practice for events and the venue. Tickets issued to Promoters of events are the result of negotiations for the event itself and are included in the total package deal for each event.
3. Ticketing software was purchased as a result of a normal RFP process. It was necessary to purchase new software in order to replace an older system. Based on the selection criteria and process, the purchase of the software provided good value for the money spent. The capital costs for the ticketing software were paid for by Ticket Atlantic and no portion of the cost was allocated to HMC.

FINANCIAL IMPLICATIONS

There are no direct financial implications associated with this report. A negotiation of the commission received from Ticket Atlantic may result in an increased surplus in future years.

COMMUNITY ENGAGEMENT

Not applicable

ENVIRONMENTAL IMPLICATIONS

None

ALTERNATIVES

None

ATTACHMENT

Grant Thornton Operational Review – Halifax Metro Centre

A copy of this report can be obtained online at <http://www.halifax.ca/boardscom/SCfinance/index.html> then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

Original Signed

Report Prepared and Approved by:

Greg Keefe, Director of Finance & ICT/CFO, 490-6308



Halifax Regional Municipality

Operations Review – Halifax Metro Centre

May 14, 2013

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Introduction

Background

This report is provided in response to the Request for Proposal, RFP #P12-070, Comprehensive Review of the Operations of the Halifax Metro Centre (HMC) issued by the Halifax Regional Municipality (HRM). The RFP was issued to address recommendations from HRM's Auditor General who issued a report in July, 2012 entitled "*Review of the Transfer of Box Office Operations from the Halifax Metro Centre to Trade Centre Limited*."

The Halifax Metro Centre (HMC) opened in 1978 and is a multi-purpose indoor arena located in downtown Halifax, Nova Scotia. Since 1978 the HMC has been the home to many sports teams and has hosted hundreds of events and gatherings. The building is adjacent to the World Trade and Convention Centre, and is located at the foot of the historic Citadel Hill. The HMC was initially configured with seating arrangements including a lower bowl and partial upper bowl. Since opening, the facility has undergone significant renovations over the years resulting in the addition of premium seating and luxury skyboxes. The HMC serves as the Atlantic region's premier venue for concerts, sports and special events. The HMC is home to the Halifax Mooseheads, the Halifax Rainmen, and the Royal Nova Scotia International Tattoo. The HMC has the capacity to seat between 10,000 and 13,000 people, depending on the sport or production being hosted.

The HMC business model is based on earning revenue from facility rental with event organizers and promoters paying a fee for use of the venue. Event revenues are the largest revenue stream followed by the lease and rental of Executive Suites & Skyboxes. In addition the HMC generates additional revenue from commissions on the sale of tickets, concessions and souvenirs. The HMC's revenue model is driven by the number and quality of events the facility hosts. The number of events directly contributes to facility rental while high quality events support the sale of Executive Suites & Skyboxes. Commission revenue is related to the level of attendance at events with higher attendance events resulting in higher sales and commission payments.

Purpose/Objective

The purpose or main objective of this engagement was to ensure that the Metro Centre has been managed in a manner that benefits the citizens of the HRM and that decisions have been made with their best interest in mind.

Scope of engagement

The scope of work for this project focused on three key issues:

- 1 Financial Review of the HMC
- 2 Operations of the box office
- 3 Value added concepts

The work programme for this engagement was completed in two parts, including the following:

Part I – Financial review – HMC

The scope of work for **Part I** focused on the financial performance of the HMC since 2004/2005. The review process included the following:

- A trend analysis on the HMC's costs and revenues
- Review of the means of allocating costs between the Trade Centre Limited (the TCL) and HMC to determine if reasonable, appropriate and adequately supported
- For salaries charged to the HMC, a review of the compensation packages for key employees of the TCL to determine if levels are appropriate for a facility of this type, as compared to compensation packages within the Halifax Regional Municipality (HRM) as well as the private and MUSH sectors.
- A comparison of the operating costs for HMC, with comparable Canadian facilities

Part II – Box Office operations

The scope of work for **Part II** concentrated on a review of box office operations which included:

- Identification of revenue and costs, both direct and allocated, and calculation of a contribution margin for each year for the box office and for Ticket Atlantic operations;
- Identification of the portion of the contribution margin applicable to sales of tickets for HMC events;

- Identification of the distribution of gross ticket revenue by event type, the number of tickets which were complementary and policies supporting complimentary tickets;
- Estimation of the contribution margin the HMC would have realized from box office operations if the transfer of box office operations had not taken place;
- A review of the risks versus return the HMC would have assumed if the transfer of the box office had not taken place;
- A determination if compensation paid to HRM and the vendor under the current ticketing arrangement was/is appropriate;
- A determination if the contract to purchase the new ticketing system was good value for money; and
- Identification of costs allocated to the HMC for the new ticketing system and an assessment of whether the costs were appropriately and properly calculated.

Methodology

Our methodology for conducting this review included the following:

- Review of documents, financial statements and related reports for HMC
- Review of general industry trends—operations of sports and entertainment venues
- Interviews with representatives of HRM, HMC and TCL
- Detailed interviews with representatives of comparable facilities across Canada
- Analysis of comparable facility operating results, ticketing systems, management and organizational structure
- Assessment of the key success factors for comparable facilities and comparison to the operations of HMC

Part I – Financial review – HMC

Introduction

During the financial review of the HMC's operations, we have analysed the revenue and costs at a financial statement level as well at an event type level. In addition the HMC's operating and financial results were benchmarked against six other mid-size Canadian arenas/entertainment centres that also offer premium seating and luxury skyboxes. The HMC has a March 31 financial year end and information has been presented on this basis.

Industry trends

The Canadian Sport Tourism Alliance regularly reports on the Value of Sport Tourism and, although the focus of their reporting is on individuals who travel for sporting events, the trends are reflective of facility demand, in total, in Canada.

In a February, 2012 report, spending associated with the Canadian sport tourism industry reached \$3.6 billion in 2010, which was an increase of 8.8% from 2008; the increase in sport tourism spending was driven by domestic sport travellers.

In the Maritimes, sport tourism visits increased by 27% between 2008 and 2010.

As a result, the following points highlight the relevance and impact of these national trends:

- Growth in sport tourism revenues is fuelled by the number of large sporting events, such as the IIHF World Men's Championships.
- Growth rates, in terms of sport tourism spending, have declined since 2010; however, they are still positive.
- The economic impact of larger sporting events for a community or regional area is significant.
- Competition for these large events is intense, within Canada and/or North America, as many facilities are competing for a portion of this market.

To establish specific industry trends for Sports and Entertainment Centres, we reviewed the operating performance and financial results for a group of comparable facilities across Canada, including:

Abbotsford Sports & Entertainment Centre, Abbotsford, BC	Hershey Centre, Mississauga, ON
Centre 200, Sydney, NS	K-Rock Centre, Kingston, ON
Harbour Station, St. John, NB	Moncton Coliseum, Moncton, NB

This group of facilities was considered to be comparable to HMC due to the following:

- Size of facility – seating capacity
- Anchor tenant – Junior/AHL Hockey team
- The range of events hosted
- Ownership model (city owned)

In addition, we interviewed representatives for larger facilities such as General Motors Place and BC Place in Vancouver and Rexall Place in Edmonton.

Table 1 below highlights some of the key operating metrics for the six comparable facilities identified. Mix of event percentages are based on the 2012 calendar year, while all other information is based on the 2012 fiscal year.

Table 1: Operating Metrics

	Operating Metrics		
	HMC	Comparables	
		Average	Range
1. Capacity (Hockey)	10,600	6,050	6,000 – 8,500
2. Total Event Days / Year	128	84	45-127
3. Event Days (Anchor Tenant)	34	36	22 – 41
4. Mix of Events (Ice & Concerts)	37% / 12%	48% / 15%	32 – 56% / 6 – 22%
5. Total Revenue (2012)	\$7,021,000	\$4,712,000	\$3,500,000 to \$7,505,000
6. Operating Income (2012)	\$565,000	(\$212,000)	\$975,000 to (\$3,100,000)
7. Revenue / Event Day	\$54,852	\$56,095	
8. Income / Event Day	\$4,414	(\$2,524)	

Trend analysis (HMC)

Based on a review of the HMC's audited financial statements the venue has been profitable on an operating basis in seven of the last eight years. Event revenue has ranged from a low of \$6.3 million in fiscal 2011 to \$8.9 million in fiscal 2006. The sole operating loss for the period occurred in fiscal 2011 when the HMC recorded \$360k as an allowance for an uncollectible amount in relation to an outside concert on the Halifax Commons where funds were advanced by HRM through the HMC to a concert promoter. Recording this allowance resulted in an operating loss of \$252k for fiscal 2011. The expense was repaid by HRM in fiscal 2012 and should not be considered a normal expense of the HMC. There had been a pattern of funds being advanced to concert promoters through the HMC accounts to be repaid from ticket sales. In the case of the summer 2010 Halifax Rocks concert the sum of \$359,550 was never repaid. After adjusting to remove the effect of this expense and subsequent recovery HMC had operating income of \$107,425 for fiscal 2011 and \$206,166 for fiscal 2012 on a normalized basis.

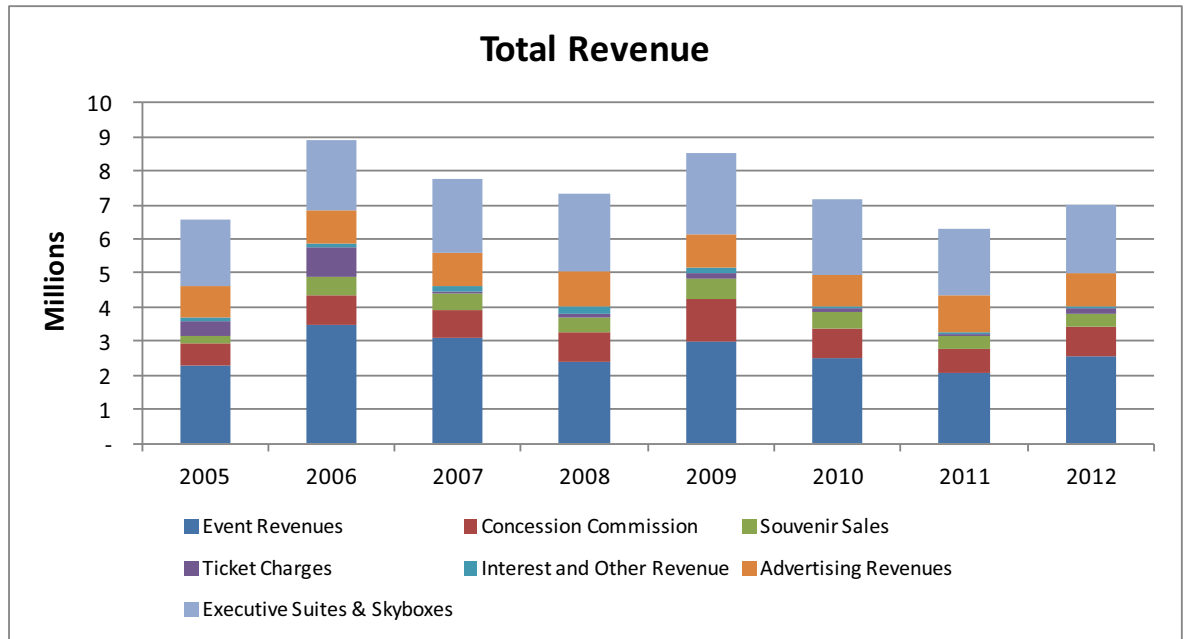
This information is summarized in a table found in *Appendix A, Schedule 1*.

Revenue and expense analysis

Total revenue

Over the period of investigation from 2005 to 2012 HMC’s total revenue has ranged from a low of \$6.3 million in 2011 to a high of \$8.9 million in 2006. In recent years there has been a slight downward trend in overall revenue as shown in Chart 1.

Chart 1: Total Revenue

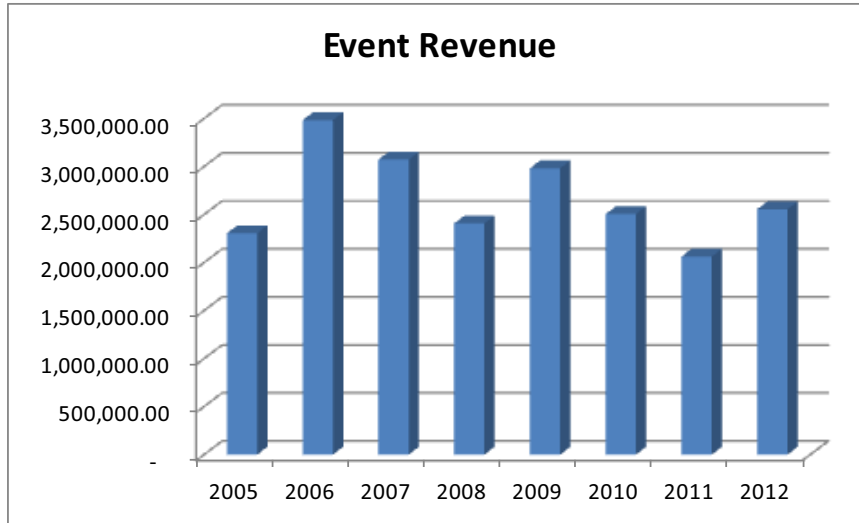


Grant Thornton performed a regression analysis on the total revenue of HMC against the population level of the HRM as well as GDP per Capita for HRM. The result of the regression analysis against these economic variables did not indicate a meaningful relationship. From our review of the revenue data the most important variable in driving event and other revenue is the quality or perceived quality of events. For example, the IIHF Worlds Men’s Hockey Championships in fiscal 2009 resulted in \$756k in revenue with \$340k of that coming from Food & Beverage Commission (“F&B”) Revenue. We also noted a strong relationship between total revenue for HMC and the prior year success of the Halifax Mooseheads. If the Mooseheads have a strong record in the prior year, HMC tends to experience an increase in revenue during the following year. If the Mooseheads have a poor year, HMC revenue will tend to decrease in the following period.

Event revenue

The event revenue stream has represented an average of 35.6% of total revenue over the period under review and is the most important source of revenue as events directly influence most of the other significant revenue streams. Executive Suites may be an exception to this relationship as this is the most stable source of revenue due to the lease commitments entered into by suite-holders; however, a weak line up of event programming could be detrimental to suite rentals. The event revenues are shown in Chart 2.

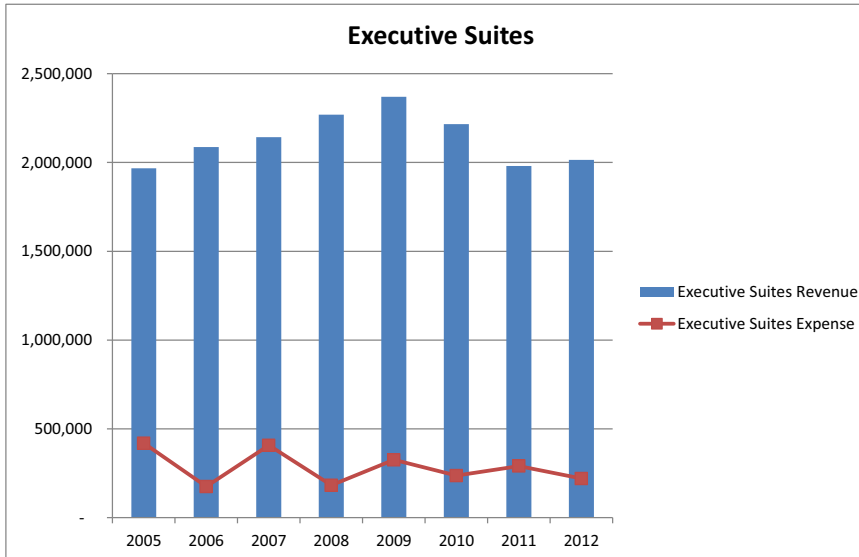
Chart 2: Event Revenue



Executive suites

As shown in the graph below, the Executive Suites are an extremely important revenue stream representing stable guaranteed revenue due to the long term nature of the rental agreements. The rental agreements range in length between 1 to 5 years with the suites representing an average of 28.8% of HMC’s total revenue during the period under review. The suites are also a high margin product with low variable costs averaging only 13.5% of suite revenue as shown in Chart 3.

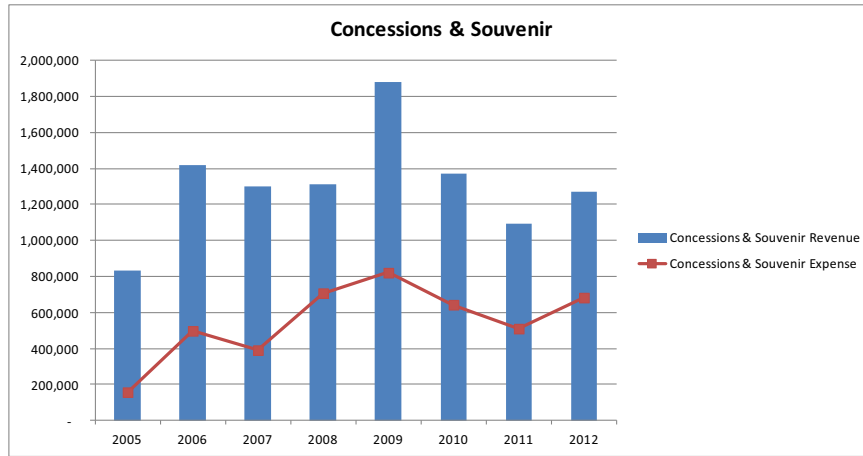
Chart 3: Executive Suites



Concession & souvenir sales

Commissions on concession and souvenir sales are another high margin revenue stream as shown in Chart 4 below. These revenue streams are directly related to event revenue with concessions averaging 32.5% of event revenue and souvenir sales averaging 16.8%. A spike in concession and souvenir revenue during the IIHF World Men’s Hockey Championships in 2009 can be seen clearly in Chart 4.

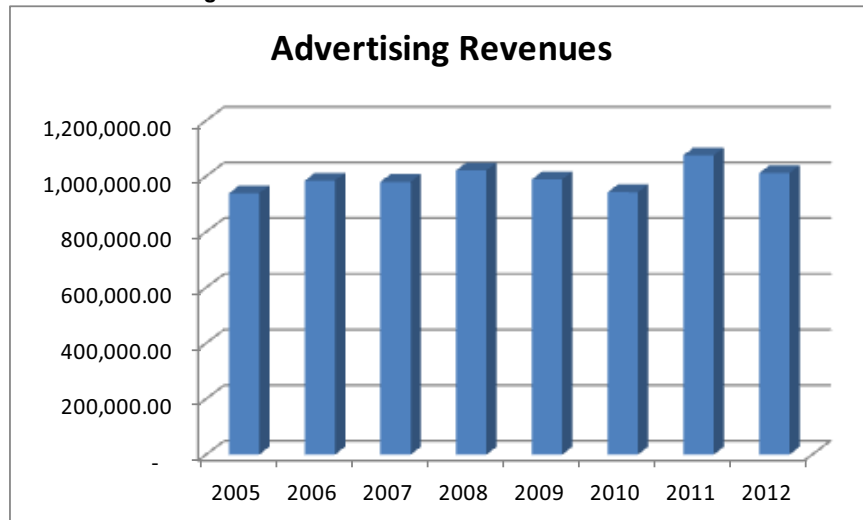
Chart 4: Concession and Souvenir Revenue



Advertising revenue

HMC’s advertising revenue has been stable over the period, generally staying below \$1 million per year, as shown in Chart 5.

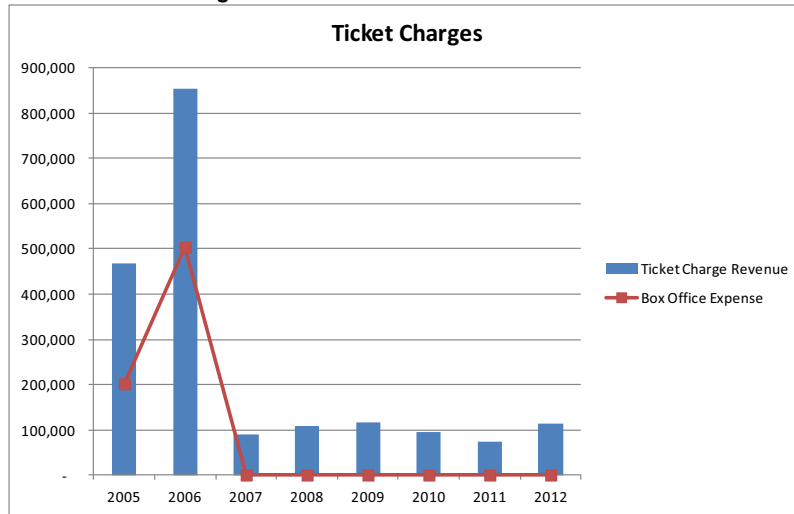
Chart 5: Advertising Revenues



Ticket charges

Prior to the transfer of box office operations from HMC to Ticket Atlantic, ticket charges represented a more significant revenue stream. Following the transfer, HMC no longer incurs box office expenses. As can be seen in Chart 6, in 2005 and 2006, the difference between ticket charge revenue and box office expenses averaged \$300k of positive earnings. Subsequent to the transfer, HMC has received an average of \$100k in commissions from Ticket Atlantic.

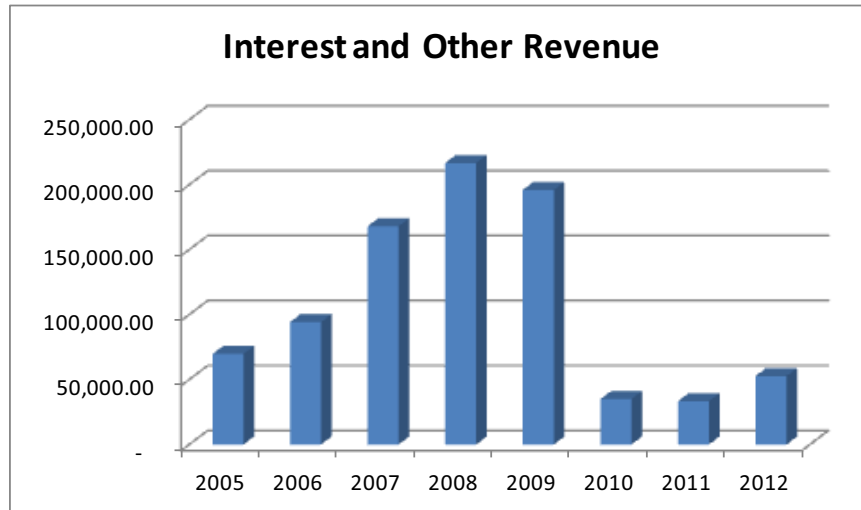
Chart 6: Ticket Charges Revenue



Interest and other revenue

Interest and other revenue peaked in 2007-2009 and have since fallen to less than \$50k per year, as can be seen in Chart 7. This decrease in interest revenue is attributable to the current low interest rate environment. The level of interest revenue earned by HMC has followed the path of the Bank of Canada reference rate from 2005 to 2012.

Chart 7: Interest and Other Revenue



Contribution margin

The contribution margin is shown in Chart 8 below. During the period 2005 to 2012, HMC’s contribution margin has averaged 56.6%. The contribution margin ranged from 55.0% to 60.7% with the exception of 2006 when the contribution margin was only 49.4% due to significantly higher event expenses. During 2006 event expenses included an offsite CFL game where only minimal revenue was attributed to HMC as a management fee. These additional costs can be seen in the Chart 9 below. In addition, the merchant discount on ticket sales was included in event expenses in 2005-2006, before being transferred to Ticket Atlantic.

Chart 8: Contribution Margin

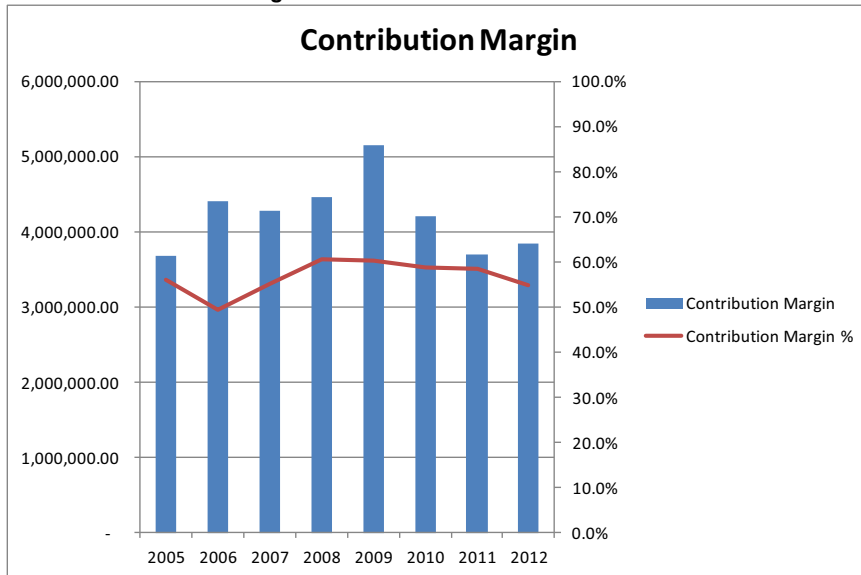


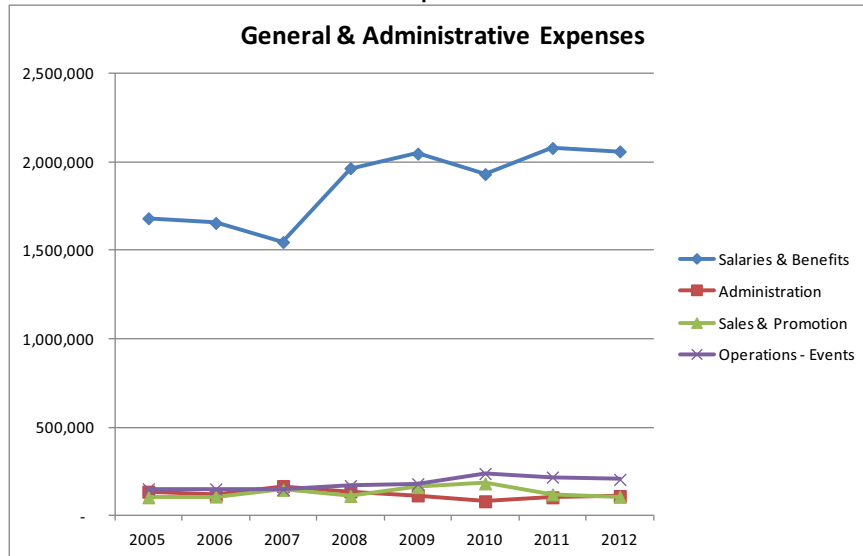
Chart 9: Event Expenses



General and administrative expense

HMC’s administrative expense has remained stable during the period, except for salaries and benefits which increased significantly after fiscal 2007. During 2005-2007, salaries and benefits were \$1.6 million on average before increasing to just over \$2 million on average for the 2008-2012 period, as shown in Chart 10. The increase in salaries and benefits is attributable to a reclassification of certain human resources costs from event expense to salaries and benefits. These costs are considered to be fixed and will not vary with the number of events that are presented at HMC.

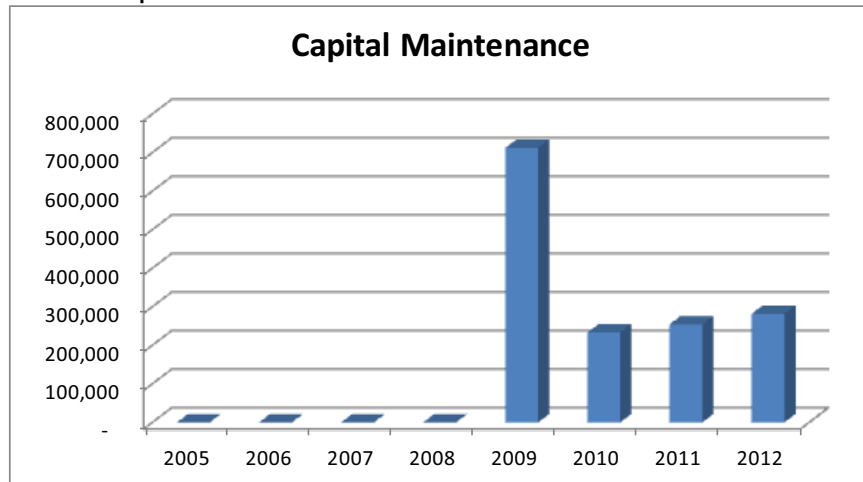
Chart 10: General and Administrative Expense



Capital maintenance & HRM debt repayments

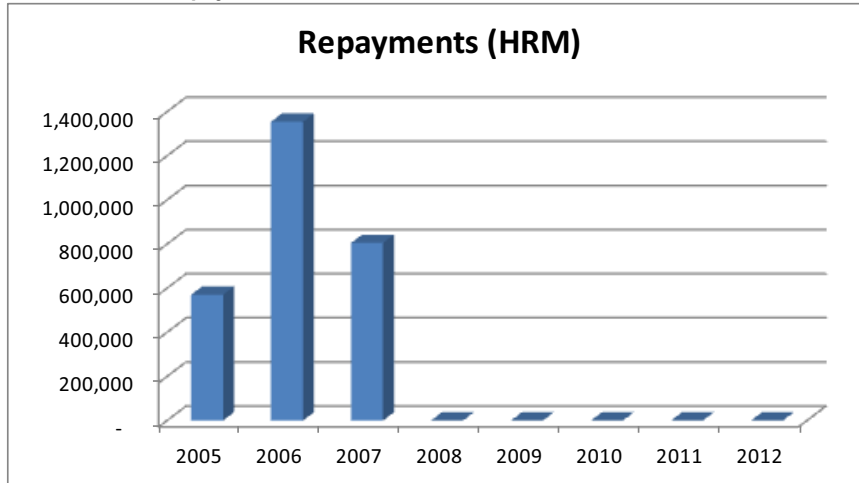
Prior to 2009, HRM directly funded any significant repairs or facility upgrades. The large expense in 2009 is related to the conversion of the facility to natural gas costing \$200k, and the upgrade of the Silverscreen scoreboard system costing \$340k.

Chart 11: Capital Maintenance



HMC's debt repayments to HRM are related to the construction of the executive suites and boxes. HRM borrowed the funds for the construction of the premium seating and HMC repaid the debt out of available cash flow ending in 2007.

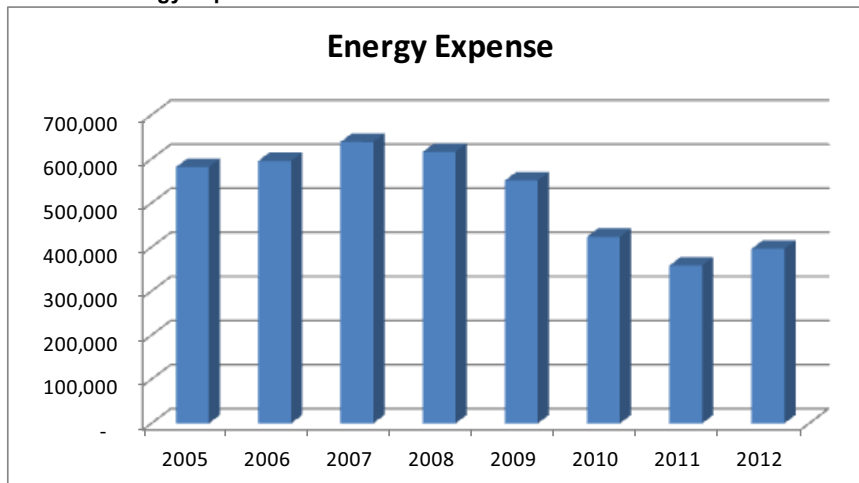
Chart 12: Debt Repayments



Energy expense

Following the conversion to natural gas in 2009, energy costs for HMC have decreased significantly, as shown in Chart 13. In addition, HMC has benefitted from other energy efficiency initiatives within the shared physical plant that have been paid for by the Province of Nova Scotia.

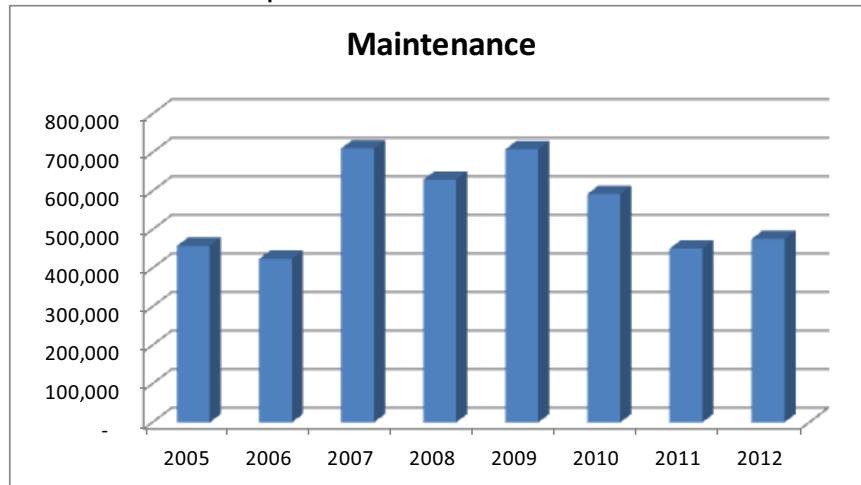
Chart 13: Energy Expense



Maintenance expense

HMC's maintenance costs have averaged \$556k per year during the period. The period from fiscal 2007 to fiscal 2010 saw an elevated level of expense which has moderated recently reflecting a return to levels experienced prior to 2007.

Chart 14: Maintenance Expense



Cost allocations

TCL manages the HMC and incurs certain operating expenses that are shared between the two organizations. TCL manages the Convention Centre, the Office Tower and the HMC. The basis for allocating expenses is based on specific expenses that can be attributed to HMC, or based on estimates and judgement where an allocation of the expense is necessary. Invoices from suppliers are billed directly to either TCL or HMC and they are paid directly by that organization. The allocation of expenses is only necessary when the invoices or expenses are for the benefit of both organizations.

A high level summary of TCL's and HMC's revenues and expenses are provided in *Appendix A, Schedule 2*. TCL's expenses excluding amortization for the fiscal years ended 2005 to 2012 range from \$11.8 million to \$15.4 million. Allocated expenses to HMC from TCL for the same fiscal years range from \$2 million to \$2.5 million, which combine for total TCL expenses, before allocation, in the range of \$13.8 million to \$17.9 million. The percentages of allocated expenses to total TCL expenses (before allocation) are calculated in the range of 14% to 15%.

We reviewed memorandums prepared by TCL staff dated May, 2011, October, 2012, and February, 2013 that discussed the allocation of expenses between the TCL and HMC. They described the basis for allocating costs between the organizations. Allocation calculations were more refined in the February, 2013 memo which was presented to the TCL Audit Committee and Board. This memo established protocols for calculating estimates for determining allocations. Prior to 2011 there was no documentation of the process for allocating costs.

Shared costs that are allocated include the following three general areas:

- 1 Shared plant
- 2 Employee compensation (other than shared plant)
- 3 Other expenses

Shared plant

The shared plant consists of costs for heating and fuel, staff salaries, HVAC compressors, electricity, air conditioning, and ice making compressors. The operating costs to run the heating, ventilating, and air conditioning equipment are allocated to HMC as follows:

Table 2: Shared Plant Operating Costs

Operating cost	Allocation methodology	HMC allocation
Heating – natural gas (post July 2009) and oil (pre July 2009)	Based on fuel consumption and estimated usage; in July 2009 the shared plant was converted to natural gas from oil. Allocation is based on pre or post 2009 estimates.	Post 2009: costs are allocated at 50%, based on the Chief Engineer's estimation of usage; Pre 2009: costs were allocated at 55% HMC/45% TCL; based on historical consumption by MC prior to the Convention Centre construction (1978 to 1984).
Salaried plant staff	Based on estimated time spent on plant activities.	Includes salaries and benefits at estimated % for work attributable to either TCL or HMC.
HVAC air compressors	Maintenance and repairs expensed based on estimated useage.	Allocation based on 4 year average electricity consumption for 2008 to 2012 – currently at 37% HMC and 63% TCL.
Electricity	Electricity is now metered by the "Total meter" in the main electrical room serving both facilities; a meter ("Main meter") in the Convention Centre/Office Tower measures TCL useage. The difference between the meters less HVAC/air cost (estimated by the Electrical Engineer) provides a theoretical consumption used to allocate costs to TCL.	Based on historical %'s when MC was stand alone prior to construction of the Convention Centre/Office Tower. Allocation at 38% HMC and 62% TCL based on historical allocation plus increase when CC began operating. HMC pays and invoices TCL.
Air conditioning chillers	Maintenance and repairs expensed based on estimated useage.	Allocation based on 4 year average electricity consumption for 2008 to 2012 – currently at 37% HMC and 63% TCL.
Ice making compressors	Mycom compressors are not part of the shared plant.	100% allocation to HMC for repairs and maintenance and electricity.
Water	Separately metered for each.	Paid by HMC and TCL directly.

Employee compensation (other than shared plant)

Payroll and staffing costs for services, other than salaries and benefits for staff who work on the shared plant, are allocated to TCL or HMC based on the percentage of work attributable to each organization. The estimated percentages are determined by the TCL CEO and CFO during the annual TCL budget process. TCL invoices HMC each pay period for their share of the salary and benefits.

A summary of the overall amounts for each fiscal year and percentages of the total for each year is summarized in Table 3.

Table 3: Allocated Salaries and Benefits

Year Ended March 31,		2005	2006	2007	2008	2009	2010	2011	2012
Salaries	Halifax Metro Centre	\$ 1,471,434	\$ 1,403,282	\$ 1,516,682	\$ 1,629,798	\$ 1,852,388	\$ 1,902,175	\$ 2,025,825	\$ 1,988,339
	TOTAL	4,269,203	4,550,270	3,974,374	5,583,674	5,953,770	5,795,075	6,586,608	6,454,829
	HMC %	34%	31%	38%	29%	31%	33%	31%	31%

The allocated salaries and benefits as a whole have been fairly consistent within a range of 29 per cent to 38 per cent with the largest change from 38 per cent in fiscal 2007 to 29 per cent allocated in fiscal 2008.

Allocations of salaries and benefits for key positions for each year are as follows:

Table 4: Percentage Allocation by Position

Year Ended March 31,		2005	2006	2007	2008	2009	2010	2011	2012
Business Line	Key Positions								
Executive	President & CEO	40%	40%	40%	50%	51%	50%	50%	50%
Finance	Chief Financial Officer	40%	40%	40%	50%	51%	45%	45%	50%
Finance	Controller	60%	60%	60%	50%	51%	45%	45%	50%
Human Resources	Vice President	30%	30%	30%	30%	31%	35%	35%	50%
Operations	Director	30%	30%	100%	90%	92%	100%	80%	70%
Events	Director	95%	100%	100%	50%	51%	45%	45%	50%
Business Development	Director	97%	100%	100%	70%	51%	100%	100%	100%
Marketing & Communications	Director	25%	35%	35%		36%	35%	35%	45%
Operations	Vice President	40%	40%	40%	48%	51%			
All Other Positions		32%	27%	33%	25%	27%	28%	27%	26%

Note: in 2010-2009 there was an 'Acting CEO'

While you can see that there is some fluctuation in the percentages of salaries allocated to HMC, most stay fairly consistent over time. The biggest changes are:

- Director of Operations – allocation of 30 per cent in 2005 and 2006 to 100 per cent in 2007. This salary allocation has fluctuated each year, dropping down to 70 per cent in 2012.
- Director of Events – allocation in the range of 95 to 100 per cent for 2005 to 2007, but then dropped to an allocation in the 45 per cent to 51 per cent range for 2008 to 2012.
- Director of Business Development – allocation in the range of 97 to 100 per cent for 2005 to 2007 as well as 2010 to 2012. The 2008 year end had an allocation of 70 per cent, while the 2009 year end had an allocation of just 51 per cent.

Other expenses

All other expenses that are identified in addition to shared plant and salaries include the following items and allocation methodology as indicated or proposed in the internal allocation memorandums prepared by TCL:

- Public Service Awards – allocated based on salary allocation percentages
- Communications (cell, phone and data costs) - allocated based on salary allocation percentages

- Garbage contract – allocated based on historical volumes
- Salt and sand – purchased from HRM by TCL and allocated based on historical experience and sidewalk and parking lot space
- Snow removal – allocated based on share of building perimeter size
- Building cleaning – billed directly to TCL or HMC for each specific event or service

Summary

The allocation of expenses between TCL and HMC was based on estimates of TCL management on a basis related to either estimated usage and experience, or specific applicability to each organization. The methods of allocation were recently documented in the memorandums noted above. The basis for allocation was based on reasonable assumptions and applied consistently during the period under review. The February, 2013 memorandum prepared by TCL provides a detailed description of the policies and protocols for the allocation of shared services going forward.

A summary of the allocated expenses is presented in *Appendix A, Schedule 3*.

The percentage allocation for electricity ranges from 36 per cent to 39 per cent each year. The amount allocated for fuel has declined over the years, with the high of 59 per cent allocated in 2006 and 50 per cent allocated for both 2011 and 2012. The public service award allocation is the most inconsistent with a low of 29 per cent allocated in 2008 and a high of 50 per cent allocated for each year from 2010 to 2012. Honeywell's performance contracting allocation has remained consistent at 49 to 50 per cent each year up until the end of 2010.

Employee compensation - payroll and staffing costs TCL comparison

Financial operations of HMC were compared against similar facilities across the country where data was available. Financial statement information was obtained from Complex 1 (C1) and Complex 2 (C2), and informational interviews were conducted with C1, C2, Complex 3 (C3), Complex 4 (C4), Complex 5 (C5), and Complex 6 (C6).

In *Appendix A, Schedule 4*, we provide a financial comparison of HMC with C1 and C2. The total revenue of HMC in fiscal 2012 is more than two times C1's fiscal 2011 revenue, while C2's fiscal 2011 revenue is approximately \$500K more. The total salaries and benefits for HMC and C1 are both 29 per cent of revenue, while the total salaries and benefits for C2 are significantly lower at 16 per cent of revenue.

Including additional information obtained from informational interviews, Table 5 depicts other operating information for each facility.

Table 5: Operating Information of Other Facilities

Year Ended	Halifax Metro						
	Centre 31-Mar-12	Complex 1 31-Dec-11	Complex 2 31-Dec-11	Complex 3	Complex 4	Complex 5	Complex 6
Total revenues	\$ 7,021,440	\$ 2,955,051	\$ 7,504,653				
Total salaries	2,060,629	865,814	1,178,255	1,100,000	N/A	1,400,000	875,000
Salaries as a % of revenues	29%	29%	16%				
Income before special items	487,790	320,278	(3,096,032)				
Income before special items as a % of revenues	7%	11%	-41%				
Operating income	206,116	320,278	(3,096,032)				
Operating income as a % of revenues	3%	11%	-41%				
Maximum Capacity	10600 to 13000	5700 to 7000	7000 to 8500	5400 to 6000	6554 to 7700	6200 to 7205	5000 to 6500
Number of Events	128	81	66	45	127	82	100
Number of FT Employees	28.5	15	15	25	10	14	9
Number of PT Employees	135	400	140	400	55	250	80

Note: Number of events for HMC is from TLC's 2012 annual report.

As shown in the table above, the HMC has the largest capacity of the facilities with a maximum of 13,000, while C2 is the next largest facility with a maximum capacity of 8,500. The number of part time employees varies dependent on what events are held at the facility. HMC hires their part time staff, whereas other facilities often have volunteers.

Review of compensation and job titles

Key employees

There are nine key employment positions that we identified for HMC. These key employees are officially employed by TCL with a portion of their salaries allocated to HMC. The total salary and benefits paid for these positions for the 2011-2012 fiscal year and their percentage allocation is as follows:

- 1 President & CEO – \$196,874, with 50% allocated to HMC
- 2 Chief Financial Officer – \$160,545, with 50% allocated to HMC
- 3 Controller – \$99,015, with 50% allocated to HMC
- 4 Vice President of Human Resources – \$135,311, with 50% allocated to HMC
- 5 Director of Operations – \$110,017, with 70% allocated to HMC
- 6 Director of Events – \$99,015, with 50% allocated to HMC
- 7 Director of Business Development – \$110,017, with 100% allocated to HMC
- 8 Director of Marketing & Communications – \$99,876, with 45% allocated to HMC
- 9 Vice President of Operations – position existed only until the end of 2008 – 2009

We compared these levels of compensation to other publicly available information including HRM, FNS, NSBI, WDCL, and GASHA as shown in Table 6 and Table 7. The salary levels are similar to

amounts paid by these organizations. A comparison to the salary ranges of general managers and accounting directors at sports complexes in HRM is shown in Table 8. The salaries paid are within the ranges paid for similar positions in HRM.

Table 6: Salary Comparison with Outside Organizations

Key Positions	Salaries (excluding benefits)				
	Trade Centre Limited	Film Nova Scotia	Nova Scotia Business Inc.	Waterfront Development Corporation Limited	Guysborough Antigonish Strait Health Authority
President, CEO, General Manager	\$ 171,195	\$ 153,510	\$ 225,000	\$ 151,834	\$ 125,766
Chief Financial Officer/ Director of Finance	139,604				
Controller	86,100				
Vice President/ Director of Human Resources	117,662		101,000		
Director/ Vice President of Operations	95,667				119,288
Director of Events	86,100				
Director of Business Development	95,667			115,134	
Director of Marketing & Communications	86,100				
Vice President			135,000		
Directors, various positions			101,000 to 121,000		

Table 7: Salary Comparison with Halifax Regional Municipality

Key Positions	Salaries (excluding benefits)		
	Trade Centre Limited	Halifax Regional Municipality	
	Actual	Low	High
Director Human Resources/ Vice President	117,662	135,000	165,000
Director Community Development/ Business Development	95,667	135,000	165,000
Director Metro Transit Services	N/A	135,000	165,000
Municipal Auditor General	N/A	135,000	165,000
Director Finance & Info Technology/ CFO	139,604	135,000	165,000
Director Administrative Service/ Operations	95,667	135,000	165,000
Director Infrastructure Asset Management	N/A	135,000	165,000
Director Transportation & Public Works	N/A	155,000	190,000
DCAO Administrative Office Operations/ President & CEO	171,195	175,000	210,000

Table 8: Salary Comparison with Local Sports Complexes

Key Positions	Range	Salaries (excluding benefits)					
		Trade Centre Limited	Cole Harbour Place	Dartmouth Sportsplex	Halifax Forum Commission	HRM - Sackville Sports	St. Margarets Community Centre
General Manager		171,195					
	Low		60,000	69,915	96,000	91,703	64,969
	High		90,000	104,872	144,000	137,554	97,453
Chief Financial Officer		139,604					
Accounting Director/ Controller		86,100					
	Low		N/A	59,200	N/A	N/A	N/A
	High		N/A	88,800	N/A	N/A	N/A

Operating cost comparison

HMC was benchmarked against six other sports and entertainment facilities in Canada. In alphabetical order they are:

- Abbotsford Entertainment & Sports Centre – Abbotsford, British Columbia
- Centre 200 – Sydney, Nova Scotia
- Harbour Station – Saint John, New Brunswick
- Hersey Centre – Mississauga, Ontario
- K-Rock Centre – Kingston, Ontario
- Moncton Coliseum - Moncton, New Brunswick

Interviews were conducted with management of these facilities to collect information to compare with HMC.

As shown in *Appendix A, Schedule 5*, the total number of full-time employees varies from 9 at C6 to 28.5 at HMC, while the employee compensation expense information provided varies from \$875,000 to \$2,061,000. Per full-time employee, the actual employee compensation averages \$72,300 per employee for HMC. This average places HMC's average full-time salary below that of C1, C3, and C6, and above the average full-time salaries of C2 and C3.

We also calculated full-time employee compensation on a per event basis. Using this approach HMC averages approximately \$16,100 per event while the other facilities range from \$8,750 to \$24,444 per event. Given the number of events and the ice arena capacity, HMC's employee compensation per available seat at events held was \$1.52. This was the lowest of any of the facilities. Others ranged from \$1.75 to \$4.21.

Other operating costs were compared based on financial information provided by C1 and C2, as shown in *Appendix A, Schedule 4*. Comparisons were made on a percentage basis given the differences between the complexes total revenues.

There was a wide variance in variable expenses for each facility. C1 was the lowest at 27 per cent of revenues, while HMC's were in the middle at 45 per cent, with C2 having variable expenses that were 105 per cent of revenues.

HMC's administration expenses were the lowest at 2 per cent of revenues, while C1 and C2's administration expenses were 4 per cent and 8 per cent, respectively. Sales and promotions were relatively small for each facility, staying in the range of 1 to 2 per cent of total revenues. Operations were 3 per cent of revenues for HMC, 4 per cent of revenues for C1, and 0 per cent of revenues for C2.

Maintenance expenses for HMC are slightly higher than C1's at 7 per cent of revenues compared to C1's 6 per cent, but is double C2's 3 per cent of revenues. The energy expenses for HMC is 6 per cent, while C1 spends a total of 14 per cent of their revenues on energy, and C2 spends only 4 per cent.

HMC also has capital maintenance expenses totalling 4 per cent of revenues.

Overall, HMC's expenses are reasonable when compared to other facilities.

Part II – Box Office operations

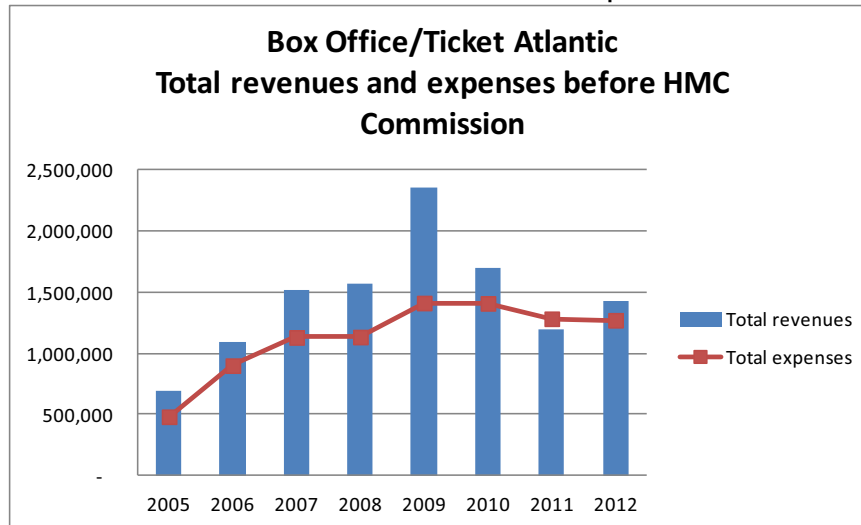
Introduction

As required in the Scope of Work for this assignment, we have reviewed the impact of the transfer of Box Office Operations from HMC to TCL. In addition, we have reviewed the purchase of the new ticketing system and the financial impacts on HMC.

Financial analysis

We reviewed the internal financial statements of the HMC Box Office and Ticket Atlantic. In general, revenue and expenses are directly related to the number of events held and the popularity of those events. During a normal year, HMC will host a variety of sporting and non-sporting events. As mentioned previously, the success of the Halifax Mooseheads hockey team is very important for the overall revenue of HMC; however, sporting events are less important in relation to Box Office and Ticket Atlantic financial results. Both Ticket Atlantic and the HMC Box Office (before 2007) obtain their revenue from the service charge paid on single tickets. If tickets are sold in a package, the service charge is not applied and there is no revenue. A large portion of total tickets sold for Sporting events is in packages and this results in no revenue. The service charge for single tickets sales creates income as reported for the 2008 IIHF World's Men's Hockey Championships (the Hockey Championships) that were held at HMC during fiscal 2009. The Hockey Championships were a large marquee event that dwarfed any other events in recent years in terms of size and scale. In excess of 200,000 people attended the Halifax portion of the event. The impact of the Hockey Championships can be seen in the chart below:

Chart 15: HMC Box Office/ Ticket Atlantic Revenues and Expenses



We can see from Chart 15 that an outlier event in terms of scale or a combination of events must be held at HMC for ticket revenues to significantly exceed the associated expenses. This occurred in fiscal 2009 with the Hockey Championships and to a lesser extent in fiscal 2007, 2008 and 2010 with the above average results being attributed to the following:

- 2007 – 3 NHL Preseason Games & Canadian Figure Skating Championships
- 2008 – Cirque du Soleil
- 2009 – Hockey Championships
- 2010 – Cirque du Soleil & 2010 Brier Curling Championships

In fiscal 2005, HMC hosted the IIHF World Women’s Hockey Championships and the Roar of the Rings Curling trials the following year. Ticket Atlantic has attributed the weaker results in fiscal 2011 and 2012 to the lack of such marquee events and the erosion of net service charge revenue due to increasing promoter rebate levels. In recent years, the promoters for in demand acts have requested a larger share of overall ticket revenue in the form of increased rebates, reducing service charges on ticket sales.

Contribution margin

During 2005 and 2006 tickets for events at HMC were sold through the Box Office before responsibility for sales was transferred to Ticket Atlantic in 2007. The contribution margin generated by the Box Office and Ticket Atlantic has averaged \$711k per year; however, the contribution margin varies depending on the events that were presented during the year. During 2005-2012, contribution margins ranged from \$381k in 2011 to \$1.34 million in 2009. The noticeable peak in 2009 is related to the success of the Hockey Championships. The summary financial information for the Box Office and Ticket Atlantic (including offsite events) is shown in *Appendix A, Schedule 6*.

As the financial information for Ticket Atlantic includes non-HMC tickets sales it is important to isolate the financial information that relates to on-site ticket sales. Excluding off-site events, the contribution margin for Ticket Atlantic and the box office has averaged \$532k per year. The lowest

level of contribution margin was in 2011 at \$277k and the highest in 2009 at \$1.08 million. These results are consistent with the prior analysis that included offsite events. The significantly higher than average contribution margin in 2009 is attributable to the IIHF World Men's Hockey Championship which resulted in higher than average ticket sales for the year as over 200,000 people attended the games. The contribution margin generated from onsite events is shown in *Appendix A, Schedule 7*.

In general, the contribution margin generated by ticket sales has decreased in recent years with the decrease attributed to increasing promoter rebates and increased costs for box office operations. Cost for box office operations include a combination of fixed or baseline costs to have a box office open and variable costs that are driven by the number of events hosted at the HMC. When an event is to be held the majority of ticket sales will occur in a short period of time after tickets go on sale. This period is referred to as the event open and additional staff is employed during the period to handle the additional volume of transactions during each open.

Halifax Metro Centre ticket sales

Event settlement

We have reviewed the ticket sales process for HMC and the settlement policy for ticketed events. In its role as operator and ticket agent (through Ticket Atlantic or the Box Office) TCL executes Event Settlement as a normal course of business to reconcile financial obligations with event organizers at the close of all events. The following procedures are in place for event settlement:

- 1 A contract between event organizers and TCL will be in place for all ticketed events detailing the financial terms for the services to be provided.
- 2 Prior to an event a preliminary event settlement estimate is prepared by TCL and reviewed with the event organizer.
- 3 On the date of an event an event settlement will be produced by TCL listing all actual event revenues and expenses as per the event contract.
- 4 Event revenues are supported by a box office settlement report with actual ticket sales including HST collected.
- 5 Recoverable expense amounts are provided by TCL with supporting backup documentation.
- 6 Facility rental and other event contract expenses are to be incorporated based on the signed contract amounts.
- 7 Any accounts receivable due from the event organizer will be incorporated into the Event Settlement.
- 8 On the date of the event the event settlement is reviewed by TCL and the organizer, with agreement being evidenced by authorized signatories.
- 9 TCL will make payment to the event organizer within 72 hours of the close of the event.

Nil face value/complimentary tickets

The HMC business model is based on earning revenue from facility rental with event organizers and promoters paying a fee for use of the venue. The gross value of tickets sold per event does not directly affect the HMC's revenue stream as the HMC only receives a \$0.40 commission out of the service charge on single tickets sold. In fact the HMC may actually benefit from nil face value tickets based on the commissions generated by concession and souvenir sales associated with those tickets.

Ticket Atlantic is the ticketing agent for each event and is responsible for the reconciliation of all tickets that are distributed for the event through Ticket Atlantic. The number of paid tickets and nil face value tickets are provided as part of the event audit used in the event settlement process.

Nil face value tickets include the following:

- 1 Premium seating - executive suites and skybox passes
- 2 Complimentary tickets for the venue (HMC)
- 3 Nil face value tickets received by the event organizer for their use – “Complimentary” tickets

In order to gain access to the HMC executive suites or skyboxes, a ticket or pass is required for all customers. HMC controls this access by issuing nil face value passes through Ticket Atlantic. These are not “complimentary” as they are paid for via lease or rental revenue for the premium seating. Tickets issued for premium seating at nil face value are excluded from the ticket audit and event settlement process.

In certain cases an event contract will detail that a certain number of tickets will be made available for the venue to use at no cost. In these cases, TCL as operator of HMC will ensure that such tickets are used for business purposes only and are subject to the TCL Ticket and Event Hosting Policy and Protocol. This protocol states that when complimentary tickets are made available, they will only be used for charitable requests, stakeholder relations, business development, client recognition, employee recognition, or for the Board of Directors who are mandated to attend events from time to time.

Event organizers, as owners of events at HMC, will receive complimentary tickets from Ticket Atlantic. They print and track the number of complimentary tickets provided to organizers and this is included in the event settlement amount paid. The number and use of complimentary tickets are at the sole discretion of the event organizers. Organizers of events follow general industry practices for the distribution of complimentary tickets as follows:

- Artist or player's guest lists
- Media
- Event sponsors
- Community relations programs
- Goodwill

Unless specifically addressed in an event contract, Ticket Atlantic does not receive any fees for complimentary tickets provided to an event organizer. If a fee is specified, it is typically a nominal processing fee to cover costs only.

Estimate of contribution margin for HMC based on retention of the Box Office

Starting in fiscal 2007, there was a transfer of responsibility for ticket sales from the HMC Box Office to Ticket Atlantic. Contribution margin is based on the ticket sales revenue and the variable costs of ticket sales. Based on our analysis of the results, we believe that these two elements would not be materially different if the Box Office had been retained. One position is that overall ticket sales would be lower if the transfer had not taken place as a result of the economies of scale in marketing that Ticket Atlantic enjoys from selling at multiple locations. We expect that the majority of ticket sales are for events at HMC, and the increasing use of online internet sales and promotion would allow the HMC Box Office to increase their sales level. We believe that variable costs would be the same under both scenarios.

If the HMC had retained Box Office operations from 2007-2012, the contribution margin on ticket sales would have averaged \$545k per year. Since the transfer to Ticket Atlantic, average commission on ticket sales has been around \$100k per year as shown in Table 9. Therefore, the contribution margin retained by TCL is greater than the commission paid to HRM. Using the fixed costs attributed to Ticket Atlantic as an estimate of the fixed costs if the HMC had retained control of Box Office operations indicates that the HMC has foregone an estimate of \$84k per year in Box Office income over the six years since the transfer of operations occurred. It should be noted that this amount is positively affected by the significantly higher than average results for 2009. Eliminating the significantly higher than average results from 2009, when the HMC hosted the Hockey Championships, the average commissions received by HMC have exceeded our estimated Box Office income by \$23k per year.

Table 9: Estimate of Contribution Margin Compared to Ticket Commissions

Year Ended March 31,	2007	2008	2009	2010	2011	2012
Contribution margin	\$ 575,945	\$ 306,491	\$ 1,081,612	\$ 499,476	\$ 277,369	\$ 534,406
Estimated Fixed Costs	(291,785)	(374,304)	(345,847)	(386,128)	(388,598)	(387,807)
Est. Box Office income/(loss) after fixed costs	284,160	(67,813)	735,765	113,348	(111,229)	146,599

Year Ended March 31,	2007	2008	2009	2010	2011	2012
Est. box office income/(loss) after fixed costs	284,160	(67,813)	735,765	113,348	(111,229)	146,599
Less commissions received	(89,624)	(108,135)	(115,414)	(95,412)	(73,938)	(114,664)
Income foregone/(Excess of commissions)	194,536	(175,948)	620,351	17,936	(185,167)	31,935

Year Ended March 31,	'07-'12	Excluding '09	
Total Box Office income forgone '07-'12	503,644	(116,707)	Indicates an excess of commissions received over estimated Box Office income
Average Box Office income foregone '07-'12	83,941	(23,341)	Average excess of commissions

Risk and return of HMC retaining Box Office

Since the transfer of box office operations to Ticket Atlantic the cumulative impact on revenue and foregone contribution margin until the end of fiscal 2012 has been in excess of \$6.8 million and \$3.2 million respectively as shown in Table 10.

Table 10: Cumulative Foregone Revenue and Contribution Margin

Year Ended March 31,	2007	2008	2009	2010	2011	2012
Revenue	\$ 1,099,132	\$ 1,678,510	\$ 3,582,758	\$ 4,725,723	\$ 5,597,954	\$ 6,826,473
Contribution Margin	\$ 575,945	\$ 882,436	\$ 1,964,049	\$ 2,463,525	\$ 2,740,894	\$ 3,275,300
Margin %	52.4%	52.6%	54.8%	52.1%	49.0%	48.0%

As discussed previously, there has been a trend in recent years towards a lower level of contribution margin. This has resulted in a decreasing cumulative contribution margin percentage following the peak in fiscal 2009 when the Hockey Championships led to significantly above average results.

With the transfer of box office operations, HMC effectively transferred most of the risk in the ticket sale process to Ticket Atlantic but has given up a significant percentage of the revenue generated by ticket sales. Subsequent to transfer, HMC earns a straight commission only on the sale of single tickets.

HMC no longer benefits from a spike in average sales such as in 2009; however, HMC is still guaranteed a commission even in years such as 2011 when Ticket Atlantic generated a loss of \$7k before paying commission of \$74k to the HMC. In 2011, Ticket Atlantic's total loss was \$81k while the HMC received the benefit of the fixed commission rate on ticket sales.

As HMC's management was already outsourced to TCL, the risk transferred from HMC in relation to the Box Office was primarily financial. HMC is no longer responsible for the fixed costs of operating a stand alone box office and ticketing network. During the period since the transfer of operations, the fixed costs related to the box office have averaged \$362k per year before capital expenditures. It should be noted that the financial information for Ticket Atlantic and the Box Office before that, does not reflect the full cost of operations. The income statements prepared in relation to the box office operations include the variable cost of ticket sales that have averaged \$842k per year since the transfer and the fixed costs discussed above. These costs do not reflect the actual cost that would be incurred if

Ticket Atlantic were a standalone business unit without the benefit of operating within the TCL structure or the full cost of running the Box Office if it had been retained.

By transferring ticket sales to Ticket Atlantic, HMC avoids bearing the financial and operational risk related to staffing and training, along with any capital requirements for new equipment and upgrades. By foregoing the possibility of participating in any upside from ticket sales beyond the commission earned under the agreement with Ticket Atlantic, HMC is partially insulated from a decline in revenue from ticket sales. HMC is fully insulated from the loss that Ticket Atlantic may experience if contribution margins are not sufficient to cover fixed costs, as was the case in 2011. In addition Ticket Atlantic through its ability to sell tickets across multiple venues is better able to absorb the fixed costs. As shown in the estimates in Table 9, fixed costs have remained stable for the past five years.

Purchase of the new ticketing system

We have reviewed the process that was followed in relation to the acquisition of a replacement system for HMC's Select A Seat system. The replacement of the Select A Seat system was necessitated by the decision of Tickets.com to discontinue support for the system at the end of 2004. In addition to the lack of continuing support from Tickets.com, there was a desire to move to a more modern system to support additional ticketing options on a regional basis to increase overall sales.

Halifax HMC ticketing software background and timeline

- 1998 – HMC's incumbent ticketing software provider Select A Seat was purchased by Tickets.com.
- 2000-2002 – TCL began a preliminary review of ticketing software options.
- 2002 – Tickets.com notified TCL that the current software used for the HMC would be discontinued and support for the software would end in 2004.
- March 2003 – TCL issued a RFP for ticketing software for the HMC.
- April 2003 – The RFP closed with 3 qualified proposals received.
- May 2003 – RFP evaluation was completed with Paciolan being selected as the preferred software provider by Board and Management.
- November 2003 – TCL received an unsolicited proposal from AudienceView a newly formed Canadian software provider. TCL evaluated the proposal but decided not to reopen the original RFP.
- Fall of 2004 – TCL begins negotiations with Paciolan.
- December 29, 2004 – TCL signs a five year contract with Paciolan effective May 31, 2005.
- January 2005 – TCL presented the final details of the software solution to the Board.
- July 2005 – Paciolan system goes live.
- May 2010 – 2 year contract extension with Paciolan.
- May 2012 – 3 year contract extension with Paciolan.

Ticket system selection process

During the RFP process for HMC's new ticketing system, there were three qualified proposals submitted by Paciolan, Tickets.com and Xwave. The proposals were evaluated against six weighted

criteria as follows:

- System Quality (20%)
- Service/Maintenance (15%)
- Regional Abilities (20%)
- Software Abilities (15%)
- Product Flexibility (10%)
- Cost (20%)

The above evaluation criteria and weights appear to be a reasonable approach to selecting the replacement system for Select A Seat. We do note that the regional abilities criteria was included due to TCL's long term objective to establish a regional ticketing system as this does not appear to have been a capability of the existing Box Office ticketing system.

Based on the evaluation criteria under the RFP, the Paciolan system was considered to be the best solution in all categories with the exception of cost. The results of the evaluation process are included as [Appendix B](#) with the following summary results:

- Paciolan 88%
- Tickets.com 46%
- Xwave 36%

At the time of the RFP Paciolan had been in business for over 20 years with 25% of all North American tickets sold annually being sold via Paciolan systems. TCL presented Paciolan as the best option for the RFP due to its better scoring and concerns in relation to the other systems capabilities to support regional ticketing.

After the formal RFP process ended, the unsolicited submission from AudienceView was evaluated against the same criteria and was rated at 68% as shown in the January 2005 presentation to the TCL Board which is included as [Appendix B](#). We were not able to review the specific assessment of the AudienceView system. In [Appendix B](#), TCL staff's board presentation described AudienceView as a young company that was unproven in relation to the sports arena market, large volume sales, regional ticketing and interacting with other sales outlets.

System cost

In terms of upfront and ongoing costs of the potential replacement ticketing systems we were unable to review the projected cost of the AudienceView system as this was evaluated outside the RFP and the documentation in relation to cost was not available. For the three systems that qualified under the RFP the following costs were noted:

Table 11: Ticketing System Costs per RFPs

	Paciolan (USD)		Tickets.Com (USD)		Xwave (CDN)
Upfront Cost	\$	299,848	\$	69,041	\$ 613,146
Annual Fixed Cost		32,000		23,640	65,750
Variable Charges		7% of Service Charges		2.6% for Credit Card Charges	n/a
Other Items		Minimum charge of \$24,000		Weekly Settlement with a rebate set by Tickets.Com	n/a
Additional Costs		29 PCs not included		29 PCs not included	29 PCs included

Other than the information on the three systems the initially qualified under the RFP, we were unable to obtain contemporary cost information on any other ticketing systems. We also note the contract for the Paciolan system selected under the RFP took a different form than proposed above.

Upon implementation of the system \$178,734 was capitalized as an upfront cost to TCL through Ticket Atlantic. Ongoing fees include an \$88,000 per year annual hosting service fee for five years as well as a fee of \$0.40/ticket for the first 350,000 tickets and \$0.25/ticket for sales above 350,000. The costs of the Paciolan system were fully expensed to Ticket Atlantic, without an allocation to HMC.

Ticket sales commission paid to HMC

Following the transfer of Box Office operations to Ticket Atlantic in fiscal 2007, HMC now receives a commission on the sale of individual single tickets to events. In the case of package or complimentary tickets, no commission is paid to HMC as Ticket Atlantic does not receive a service charge on these types of tickets. The commission paid to HMC mirrors the commission structure that was originally put in place with Paciolan.

We were unable to find documentation supporting the determination of the compensation structure for ticket sales. In the course of discussions with TCL staff members regarding the origin of the \$0.40/ticket charge, we were unable to find any TCL employees who were aware of the rationale for the selection of the current charge other than it matched the level paid to Paciolan. In a successful year with over 350k single ticket sales, the terms of the Paciolan contract allow for Ticket Atlantic to benefit from a reduction in the fee paid per ticket from \$0.40 to \$0.25. For payments to HMC the reverse is currently in place. In a successful year, HMC will receive only \$0.25 per ticket once sales of single tickets exceed 350k in ticket sales.

HMC was benchmarked against terms with other venues. Venues with outsourced ticket sales typically pay a commission to the service provider, and retain the difference between the service charge and commission. During our review of HMC's Maritime peer group (C2, HS & MC), it was noted that on average the commission paid to AudienceView is \$1.50 per ticket. This is greater than the amount paid to HMC under the current arrangement.

Findings

Introduction

This section will summarize the findings from our review. In our dealings with TCL staff we were granted access to all documentation requested and answers were provided to all of our questions. We found TCL staff to be helpful and dealt with us in a professional manner at all times. HMC is Atlantic Canada's premier venue for major public events. There are no other comparable facilities in Atlantic Canada that offer office space, convention hosting, and entertainment events on the same scale. TLC believes they operate in a market that includes clients who deal directly with other major venues in Canada for conventions, concerts and events which makes them unique here in the Atlantic Canada market place. HMC has operated on a profitable basis for much of the period under review. This provides an important contribution to the Nova Scotia and Halifax community without financing operating losses or injecting working capital to sustain the business.

Financial review

- 1 **Industry trends** – the financial performance of sports and entertainment centres is driven largely by the mix of user groups, including an anchor tenant, and by large events. Over the past five years, sport tourism revenues in Canada have grown; however, competition for the large events is intense. As a result, the financial performance of individual facilities has been challenged.
- 2 **Trend analysis** – our analysis of the financial results indicates that the gross revenue has ranged from \$6.3 M to \$8.9 M between 2005 and 2012. Revenue fluctuated depending on the number and nature of events hosted. For example, the Men's World International Ice Hockey Tournament resulted in facility rentals, event recoveries, and food and beverage commission income of \$756,000 in the 2009 fiscal year. Special events and longer Moosehead playoff runs increase revenue in any given year. Expenses have been in the range of \$2.9 M to \$3.7 M, including salaries and benefits of \$1.5 to \$2.1 M. HMC has shown a profit in each year (after normalizing for the bad debt for an unrecoverable advance to a concert promoter funded by HRM) in the range of \$2,717 to \$821,142. The fact that the HMC is profitable makes it unique when compared to other public comparable facilities where operating losses are common.
- 3 **Allocation of costs** – our review of the methodology and types of expenses allocated by TCL to HMC indicated that there was consistency in the types and amounts of expenses allocated. The property managed by TCL includes the Office Tower and Convention Centre (276,270 square feet) and the Metro Centre (205,000 square feet) for total square feet of 481,270. The HMC portion by

square feet is 42.6% and allocations are based more on usage or estimates than actual square feet pro rata shares. Several of the employees of TCL have worked there since the construction of the Metro Centre and the Convention Centre and estimates of cost allocations were based on reasonable assumptions and calculations. Major expenses for the shared plant (energy, salaries, repairs, etc.) were based on experience and shared on a basis that was felt to be fair and equitable. Salaries and benefits were shared on the basis of time spent working on either HMC or TCL activities. These estimates were determined after consultation and discussions by the management team. There were no indications that these estimates were not felt to be reasonable by TCL staff. Prior to 2011 there was no documentation of the allocation methodology or how the policy was applied. Since 2011 the allocation of expenses has been documented in more detail by TCL staff. There have been no significant changes in the amounts or types of expense allocated in the period under review. Based on our review the major expense categories (shared plant costs, salaries and benefits, and other) have been allocated on a consistent basis. We do believe that there are likely some other overhead costs (technology costs – cell phones, and administrative overhead) that could have been allocated as proper business expenses in addition to the expenses already allocated.

- 4 **Salaries** – the total amount of salaries allocated (plant and administrative) for a facility the size and nature of HMC is comparable to other venues reviewed, on the basis of total salaries to total revenue. While the number of employees varies compared to the other facility information we obtained, the resulting costs when viewed on a total basis compared to the revenue generated are comparable. TCL tends to hire more part time employees on a paid basis whereas other facilities operate with volunteers for their part-time staff. While it is difficult to compare the exact role and responsibilities for TCL to other comparable facilities in respect of the size and scale of the operations and events hosted, the level of salaries for key management positions is comparable for similar responsibilities in other segments of the Nova Scotia market place.
- 5 **Comparison to other facilities** – HMC financial results compare positively to other facilities we reviewed. As illustrated in Part I of this report, HMC realized revenue per event day and income per event day above that realized by the six comparable venues, on average. In fact, three of the six venues reviewed had operating losses in 2011/2012.

Box Office review

- 1 The Box office was operated by HMC up until 2007 when responsibility for ticket sales was transferred to Ticket Atlantic. As reported by the HRM Auditor General, neither TCL nor HRM were able to provide documentation to support the approval for the transfer of the Box Office from HMC to the rebranded Ticket Atlantic operation. There is also no support for the determination of the pricing on a per ticket basis for the commission paid to HMC on the sale of individual tickets. Our financial analysis shows that there were profits reported by Ticket Atlantic in excess of the amount of Commissions paid to HMC in each year since 2005, except for 2011. The Box Office Income foregone since the transfer of operations has averaged \$84k per year, but this is driven by strong financial results for Ticket Atlantic in 2009. The average results for years other than 2009 is that the HMC has received \$23k more through commissions than would have been generated if the Box Office had been retained, assuming the fixed costs for a retained Box Office would be equal to the actual fixed costs incurred by Ticket Atlantic.

- 2 We reviewed the process and policies for issuing Complimentary tickets for HMC events. There are policies in place that require these tickets to be used appropriately for bona fide purposes. These tickets are for Premium Box seating (included in annual contract fees), HMC use, and Promoter use only. Based on our review we believe that Complimentary tickets are issued as a normal business practice for events and the venue. Tickets issued to Promoters of events are the result of negotiations for the event itself and are included in the total package deal for each event.
- 3 Ticketing software was purchased as a result of a normal RFP process. It was necessary to purchase new software in order to replace an older system. Based on the selection criteria and process, the purchase of the software provided good value for the money spent. The capital costs for the ticketing software were paid for by Ticket Atlantic and no portion of the cost was allocated to HMC.

Recommendations

We were awarded the RFP for the review of the HMC in October, 2012. Since then we are aware that TCL and HRM have had discussions concerning the operation of the HMC. We have not been made aware of any decisions or agreements. TCL has also written more detailed policies for the arrangements, for example a policy for the allocation of costs to HMC.

Based on our review we offer the following recommendations:

- 1 A regular and transparent process should be implemented to enable HRM to monitor the operation of the HMC by TCL. This should include regular financial reporting, discussions on annual budgets, and approval for major investments or abnormal expenditures. Regular meetings should be scheduled with an appropriate representation of TCL and HMC officials. Minutes should be documented and all important decisions should be approved or rejected by the designated representatives. Significant decisions should be further approved by the appropriate level of HRM and TCL (e.g., Council or Board or management as agreed).
- 2 In designing a compensation structure for ticket sales there are three options that could be used by Ticket Atlantic and HMC:
 - Use of the current system where the majority of the risk and upside return has been transferred to Ticket Atlantic with HMC being guaranteed a minimum return on single tickets sales.
 - A cost matching approach where service charges are set at a minimum level to cover the cost of box office operations. Under this approach the box office is not viewed as a profit centre rather the cost of tickets are lowered by reducing the service charge. The goal of this approach is to stimulate demand for tickets and increase attendance to drive other revenue and ultimately increase the number of events hosted each year. If events are viewed as being more successful due to greater attendance then it should follow that the demand from promoters to stage events at HMC should increase. This approach requires that the box office management have the ability to adjust service charges to match the cost of operations in the aggregate. It will also only be of benefit if the HMC has capacity to increase the number of events that are held during the year.
 - A partnership approach where Ticket Atlantic and HMC share in the upside return from successful events. A formula could be developed to support this approach that would likely

require the HMC to forgo its currently guaranteed minimum commission level in years such as 2011 where Ticket Atlantic operates at a loss.

- 3 Currently group and package ticket sales are not subject to a service charge, however there are costs associated with the issuance of all tickets sold. Ticket Atlantic's cost structure is being solely support by the service charges on single ticket sales. Ticket Atlantic and HMC could consider if there is the ability and scope to institute a service charge or cost recovery fee on group and package ticket sales.

Appendix A: Schedules

Schedule 1: Trend Analysis

Trade Centre Limited																
Internal Financial Statement Trending																
Halifax Metro Centre	Year End Actual Mar - 2005		Year End Actual Mar - 2006		Year End Actual Mar - 2007		Year End Actual Mar - 2008		Year End Actual Mar - 2009		Year End Actual Mar - 2010		Year End Actual Mar-11		Year End Actual Mar-12	
Event Revenues	\$ 2,304,858	35.0%	\$ 3,483,169	39.0%	\$ 3,071,766	39.6%	\$ 2,406,443	32.8%	\$ 2,981,820	34.7%	\$ 2,504,787	35.0%	\$ 2,062,528	32.6%	\$ 2,555,280	36.4%
Concession Commission	627,998	9.5%	839,229	9.4%	859,405	11.1%	851,430	11.6%	1,256,427	14.8%	840,838	11.7%	726,715	11.5%	882,838	12.6%
Souvenir Sales	205,178	3.1%	580,516	6.5%	443,874	5.7%	463,074	6.3%	622,253	7.3%	531,309	7.4%	364,546	5.8%	389,576	5.5%
Ticket Charges	467,226	7.1%	854,347	9.6%	89,624	1.2%	108,135	1.5%	115,414	1.4%	95,412	1.3%	73,938	1.2%	114,664	1.6%
Interest and Other Revenue	69,661	1.1%	94,216	1.1%	168,022	2.2%	216,726	3.0%	196,011	2.3%	34,909	0.5%	33,367	50.0%	52,728	0.8%
Advertising Revenues	936,726	14.2%	983,764	11.0%	979,935	12.6%	1,021,206	13.9%	988,827	11.6%	942,652	13.2%	1,075,135	17.0%	1,011,373	14.4%
Executive Suites & Skyboxes	1,967,608	29.9%	2,086,550	23.4%	2,142,732	27.6%	2,269,735	30.9%	2,369,583	27.9%	2,216,049	30.9%	1,980,860	31.4%	2,014,981	28.7%
	6,579,255	100.0%	8,921,791	100.0%	7,755,358	100.0%	7,336,749	100.0%	8,530,335	100.0%	7,165,956	100.0%	6,317,089	100.0%	7,021,440	100.0%
Event Expenses & Operations	2,473,012	37.6%	4,317,494	48.6%	3,079,400	39.7%	2,704,232	36.9%	3,061,619	35.7%	2,726,518	38.0%	2,334,790	37.0%	2,958,676	42.1%
Exec Suites	419,453	6.4%	195,440	2.2%	407,184	5.3%	182,200	2.5%	325,745	3.8%	237,029	3.3%	290,630	4.6%	220,188	3.1%
	2,892,465	44.0%	4,512,934	50.8%	3,486,584	45.0%	2,886,432	39.3%	3,387,364	39.5%	2,963,547	41.4%	2,625,420	41.6%	3,178,864	45.3%
Contribution Margin	3,686,790	56.0%	4,408,857	49.4%	4,268,774	55.0%	4,450,317	60.7%	5,142,971	60.3%	4,202,409	58.6%	3,691,669	58.4%	3,842,576	54.7%
Salaries & Benefits	1,682,454	25.6%	1,655,839	18.6%	1,547,940	20.0%	1,965,779	26.8%	2,046,144	24.1%	1,932,246	27.0%	2,079,939	32.9%	2,060,629	29.3%
Administration	135,310	2.1%	117,347	1.3%	167,107	2.2%	137,030	1.9%	114,184	1.3%	81,007	1.1%	462,995	7.3%	(248,844)	-3.5%
Sales & Promotions	103,562	1.6%	107,733	1.2%	145,514	1.9%	111,246	1.5%	163,201	1.9%	183,267	2.5%	120,009	1.9%	106,261	1.5%
Operations - Events	44,658	0.7%	45,269	0.5%	49,089	0.6%	39,803	0.5%	179,914	2.1%	236,657	3.3%	217,706	3.4%	204,846	2.9%
Contract Services	106,607	1.6%	105,440	1.2%	98,468	1.3%	129,632	1.8%	-	0.0%	1,198	0.0%	-	0.0%	-	0.0%
Maintenance	457,998	7.0%	424,208	4.8%	710,874	9.2%	629,520	8.6%	708,718	8.3%	592,561	8.3%	450,882	7.1%	476,100	6.8%
Energy	581,714	8.8%	595,804	6.7%	638,705	8.2%	616,165	8.4%	551,288	6.5%	423,665	5.9%	358,096	5.7%	396,244	5.6%
	3,112,303	47.3%	3,051,640	34.2%	3,357,697	43.3%	3,629,175	49.5%	3,763,449	44.3%	3,449,601	48.1%	3,689,627	58.4%	2,995,236	42.7%
Income (Loss) before Special Items	574,487	8.7%	1,357,217	15.0%	911,077	11.7%	821,142	11.2%	1,379,522	16.2%	752,808	10.5%	2,042	0.0%	847,340	12.1%
Capital Maintenance	-		-		-		-		712,229		233,167		254,167		281,674	
Debt Repayments (HRM)	570,000		1,354,500		805,070											
Operating Income (Loss)	4,487		2,717		106,007		821,142		667,293		519,641		(252,125)		565,666	
Adjustment for allowance for uncollectible amount from HRM	-		-		-		-		-		-		359,550		(359,550)	
Normalized Operating Income	\$ 4,487	0.1%	\$ 2,717	0.0%	\$ 106,007	1.4%	\$ 821,142	11.2%	\$ 667,293	7.8%	\$ 519,641	7.3%	\$ 107,425	1.7%	\$ 206,116	2.9%

Schedule 2: Summary of TCL's and HMC's revenues and expenses

	<i>change in acctg policies - restated</i>							
	Fiscal Year							
	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012
<u>Trade Centre Limited</u>								
Revenue and other income	\$ 10,302,654	\$ 11,115,170	\$ 13,621,802	\$ 12,220,635	\$ 15,311,374	\$ 13,633,692	\$ 19,035,673	\$ 14,158,826
Expenses		11,817,172	14,037,901	14,371,102	15,421,343	14,256,250	14,526,801	14,191,161
Amortization expense		1,404,989	1,506,123	1,504,426	1,509,800	1,515,168	2,745,571	2,490,043
Net surplus (deficit)	\$ 10,302,654	\$ (2,106,991)	\$ (1,922,222)	\$ (3,654,893)	\$ (1,619,769)	\$ (2,137,726)	\$ 1,763,301	\$ (2,522,378)
<u>Halifax Metro Centre</u>								
Revenue	\$ 6,579,255	\$ 8,921,791	\$ 7,755,358	\$ 7,336,749	\$ 8,530,335	\$ 7,165,956	\$ 6,317,091	\$ 7,021,440
Expenses	6,574,768	8,919,074	7,649,351	6,515,607	7,851,445	6,633,621	6,584,259	6,455,774
Net surplus (deficit)	\$ 4,487	\$ 2,717	\$ 106,007	\$ 821,142	\$ 678,890	\$ 532,335	\$ (267,168)	\$ 565,666
Trade Centre Limited's expenses	\$ -	\$ 11,817,172	\$ 14,037,901	\$ 14,371,102	\$ 15,421,343	\$ 14,256,250	\$ 14,526,801	\$ 14,191,161
Expenses allocated to Halifax Metro Centre	2,080,119	2,043,286	2,192,799	2,362,052	2,512,144	2,281,279	2,372,032	2,543,412
Total Trade Centre Limited's expenses	\$ 2,080,119	\$ 13,860,458	\$ 16,230,700	\$ 16,733,154	\$ 17,933,487	\$ 16,537,529	\$ 16,898,833	\$ 16,734,573
Percent allocated expenses to total	100%	15%	14%	14%	14%	14%	14%	15%

Schedule 3: Allocated expenses

Expense Category		Fiscal Year								
		2004 / 2005	2005 / 2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012	
Electricity	Halifax Metro Centre	\$ 197,394	\$ 223,949	\$ 241,788	\$ 247,103	\$ 265,326	\$ 255,608	\$ 256,087	\$ 273,977	
	TOTAL	\$ 549,673	\$ 608,670	\$ 661,745	\$ 650,707	\$ 688,314	\$ 705,093	\$ 715,294	\$ 735,922	
	HMC %	36%	37%	37%	38%	39%	36%	36%	37%	
Fuel -- (Oil / Gas)	Halifax Metro Centre	\$ 120,926	\$ 154,654	\$ 147,888	\$ 182,104	\$ 164,816	\$ 89,010	\$ 75,120	\$ 67,409	
	TOTAL	\$ 227,933	\$ 264,169	\$ 255,489	\$ 328,269	\$ 319,764	\$ 172,050	\$ 150,240	\$ 134,644	
	HMC %	53%	59%	58%	55%	52%	52%	50%	50%	
SERP (Former CEO)	Halifax Metro Centre	\$ 56,676	\$ 80,256	\$ 73,716	\$ 137,735	\$ 137,735	-	-	-	
	TOTAL	\$ 113,352	\$ 160,512	\$ 147,432	\$ 275,470	\$ 275,470	-	-	-	
	HMC %	50%	50%	50%	50%	50%				
Public Service Award	Halifax Metro Centre	\$ 11,683	\$ 16,185	\$ 14,193	\$ 12,895	\$ 21,064	\$ 10,000	\$ 15,000	\$ 213,687	
	TOTAL	\$ 33,963	\$ 40,840	\$ 45,343	\$ 45,062	\$ 47,872	\$ 20,000	\$ 30,000	\$ 427,374	
	HMC %	34%	40%	31%	29%	44%	50%	50%	50%	
Performance Contracting (HONEYWELL)	Halifax Metro Centre	\$ 222,006	\$ 164,960	\$ 198,532	\$ 152,417	\$ 70,815	\$ 24,486	-	-	
	TOTAL	\$ 450,763	\$ 336,674	\$ 403,817	\$ 312,174	\$ 141,630	\$ 48,972	-	-	
	HMC %	49%	49%	49%	49%	50%	50%			

Schedule 4: Facility Financial Comparison

Operational Review - Metro Centre												
<i>Halifax Metro Centre</i>					<i>Complex 1</i>				<i>Complex 2</i>			
	<i>03/31/2010</i>	<i>03/31/2011</i>	<i>03/31/2012</i>	<i>% of Revenues</i>	<i>12/31/2009</i>	<i>12/31/2010</i>	<i>12/31/2011</i>	<i>% of Revenues</i>	<i>12/31/2010</i>	<i>12/31/2011</i>	<i>% of Revenues</i>	
Revenue				% 2012				% 2011			% 2011	
Event Revenues	2,504,787	2,062,528	2,555,280	36%	1,981,293	1,939,557	1,341,976	45%	3,938,728	3,704,621	49%	
Ice rental	-	-	-	0%	120,758	150,850	166,173	6%	30,505	32,302	0%	
Concession Commission	840,838	726,715	882,838	13%	238,984	232,972	185,144	6%	1,463,928	1,168,361	16%	
Souvenir Sales	531,309	364,546	389,576	6%	-	-	-	0%	171,018	265,388	4%	
Ticket Charges	95,412	73,938	114,664	2%	305,413	244,530	103,082	3%	297,061	425,540	6%	
Interest and Other Revenue	34,909	33,367	52,728	1%	46,315	55,345	30,658	1%	69,520	187,704	3%	
Advertising Revenues	942,652	1,075,135	1,011,373	14%	338,034	316,369	409,226	14%	832,474	1,023,778	14%	
Executive Suites & Skyboxes	2,216,049	1,980,860	2,014,981	29%	721,794	824,998	718,792	24%	381,093	696,959	9%	
Total revenue	7,165,956	6,317,089	7,021,440	100%	3,752,591	3,764,621	2,955,051	100%	7,184,327	7,504,653	100%	
Variable expenses												
Event Expenses & Operations	2,726,518	2,334,790	2,958,676	42%	-	-	-	0%	7,941,036	7,869,172	105%	
Exec Suites	237,029	290,630	220,188	3%	-	-	-	0%	18,681	19,664	0%	
	2,963,547	2,625,420	3,178,864	45%	1,311,850	1,159,465	812,198	27%	7,959,717	7,888,836	105%	
Contribution Margin	4,202,409	3,691,669	3,842,576	55%	2,440,741	2,605,156	2,142,853	73%	(775,390)	(384,183)	-5%	
Operating expenses												
Salaries & Benefits	1,932,246	2,079,939	2,060,629	29%	771,880	911,024	865,814	29%	1,218,860	1,178,255	16%	
Administration	81,007	103,445	110,706	2%	118,515	155,731	120,428	4%	413,318	601,784	8%	
Sales & Promotions	183,267	120,009	106,261	2%	60,943	34,196	20,406	1%	92,922	159,192	2%	
Operations - Events	236,657	217,706	204,846	3%	71,095	157,485	118,106	4%	14,651	10,251	0%	
Contract Services	1,198	-	-	0%	128,250	129,917	132,374	4%	290,301	289,518	4%	
Maintenance	592,561	450,882	476,100	7%	137,700	154,775	164,227	6%	172,855	194,446	3%	
Energy	423,665	358,096	396,244	6%	457,986	457,164	401,220	14%	312,576	278,403	4%	
Total operating expenses	3,450,601	3,330,077	3,354,786	48%	1,746,369	2,000,292	1,822,575	62%	2,515,483	2,711,849	36%	
Income (Loss) before												
Special Items	751,808	361,592	487,790	7%	694,372	604,864	320,278	11%	(3,290,873)	(3,096,032)	-41%	
Capital Maintenance	233,167	254,167	281,674	4%	-	-	-	0%	-	-	0%	
Debt Repayments (HRM)	-	-	-		-	-	-		-	-		
Operating Income (Loss)	\$ 518,641	\$ 107,425	\$ 206,116	3%	\$ 694,372	\$ 604,864	\$ 320,278	11%	\$ (3,290,873)	\$ (3,096,032)	-41%	

Schedule 5: Facility Comparison

	Halifax Metro						
	Centre	Complex 1	Complex 2	Complex 3	Complex 4	Complex 5	Complex 6
Ice Arena Capacity	10600	5700	7000	5800	6554	6200	5000
Number of Events	128	66	81	45	127	82	100
Total Revenues	\$7,021,000	\$2,955,000	\$7,504,000				
Total Full-Time	28.5	15	15	25	10	14	9
Key Management (included in Total Full-Time)	5	7	7	5	3	5	2
Part-Time Staff	135	140	400	400	55	250	80
Employee Compensation Expense	\$2,061,000	\$866,000	\$1,178,000	\$1,100,000	N/A	\$1,400,000	\$875,000
Employee Compensation/ Full-Time Staff	\$72,316	\$57,733	\$78,533	\$44,000	N/A	\$100,000	\$97,222
Employee Compensation/ Total Revenues	29.35%	29.31%	15.70%				
Employee Compensation/ Number of Events	\$16,102	\$13,121	\$14,543	\$24,444	N/A	\$17,073	\$8,750
Employee Compensation/ Capacity	\$194	\$152	\$168	\$190	N/A	\$226	\$175
Employee Compensation/ (# Events * Capacity)	\$1.52	\$2.30	\$2.08	\$4.21	N/A	\$2.75	\$1.75

Note 1: Total revenues and employee compensation expense from financial statement information for HMC, C1, and C2

Note 2: All other information obtained from the centre's websites and from informational interviews with the centre.

Note 3: The information provided may not be comparable across facilities.

Schedule 6: Ticket Atlantic Contribution Margin
Ticket Atlantic (Box Office)
Contribution Margin

Period ended or ending March 31	2005	2006	2007	2008	2009	2010	2011	2012
Revenue								
Service charges & order fees	\$ 467,226	\$ 854,347	\$ 1,213,573	\$ 1,379,036	\$ 1,872,647	\$ 1,477,321	\$ 974,652	\$ 1,276,651
Expense recovery	88,614	69,053	115,071	95,504	258,958	117,187	153,410	83,182
Credit card charges	133,935	168,692	184,323	93,012	228,646	97,967	70,195	57,584
Other income 1	-	-	-	-	378	-	-	11,665
Total revenue	689,775	1,092,092	1,512,967	1,567,552	2,360,629	1,692,474	1,198,257	1,429,082
Variable costs								
Merchant discount	107,829	144,029	255,014	217,972	478,790	389,972	233,261	254,782
Box office operations 2	175,705	250,110	323,698	306,908	353,471	375,458	406,731	376,880
Paciolan - base fee 3	-	120,990	140,000	136,488	140,000	136,765	156,936	168,633
Marketing services	-	-	-	76,102	27,165	50,954	19,799	7,109
Paciolan - excess fee	-	-	-	-	18,714	-	-	-
Total variable costs	283,534	515,129	718,712	737,470	1,018,140	953,149	816,727	807,404
Contribution margin	406,241	576,963	794,255	830,082	1,342,489	739,325	381,530	621,678
Contribution margin %	59%	53%	52%	53%	57%	44%	32%	44%
Fixed costs								
Salaries	172,000	175,000	171,102	184,215	182,584	222,667	274,343	285,771
Paciolan - connectivity	-	77,685	120,683	144,544	119,829	142,659	106,473	92,968
Allocated: head office salaries and benefits	-	-	-	41,349	43,434	20,802	7,782	9,068
Computer expenses	25,977	54,916	-	-	-	-	-	-
Allocated: sales and promotions	-	-	-	4,196	-	-	-	-
Total fixed costs	197,977	307,601	291,785	374,304	345,847	386,128	388,598	387,807
Capital expenditures	-	-	178,734	-	-	-	-	44,290
Earnings before HMC commissions	208,264	269,362	323,736	455,778	996,642	353,197	(7,069)	189,581
Earnings before HMC commissions %	30%	25%	21%	29%	42%	21%	-1%	13%
Halifax Metro Centre commissions	-	-	89,624	108,135	115,414	95,412	73,938	114,664
Net Income	208,264	269,362	234,112	347,643	881,228	257,785	(81,007)	74,917
Net Income %	30%	25%	15%	22%	37%	15%	-7%	5%
HMC Other income 1	51,653	82,657	144,958	177,320	172,016	19,031	19,887	29,332

Notes

- 1 Other income is interest earned from monies held in a bank account resulting from pre-sales of events
- 2 Box office operations include wages; as per Robert Kanchuk wages are a variable cost driven by events.
- 3 Paciolan - base fee: this is a negotiated agreement between TCL and Paciolan

Schedule 7: Box Office HMC Contribution Margin

Period ended or ending March 31	Actual				Estimated			
	2005	2006	2007	2008	2009	2010	2011	2012
Revenue								
Service charges & Order fees	\$ 467,226	\$ 854,347	\$ 841,684	\$ 448,144	\$ 1,485,923	\$ 1,003,108	\$ 721,354	\$ 1,126,894
Expense Recovery	88,614	69,053	85,733	54,678	223,204	65,739	106,760	58,913
Credit card charges	133,935	168,692	171,715	76,557	195,120	74,118	44,116	42,713
Other income 1	-	-	-	-	-	-	-	-
<i>Total revenue</i>	<i>689,775</i>	<i>1,092,092</i>	<i>1,099,132</i>	<i>579,379</i>	<i>1,904,247</i>	<i>1,142,966</i>	<i>872,230</i>	<i>1,228,519</i>
Variable costs								
Merchant discount	107,829	144,029	185,753	80,534	386,562	262,882	170,085	218,676
Box office operations 2	175,705	250,110	235,214	113,558	285,637	253,738	295,686	324,329
Paciolan - base fee 3	-	120,990	102,219	50,406	112,351	92,580	114,262	144,965
Marketing services	-	-	-	28,390	22,851	34,289	14,828	6,143
Paciolan - excess fee	-	-	-	-	15,234	-	-	-
<i>Total variable costs</i>	<i>283,534</i>	<i>515,129</i>	<i>523,187</i>	<i>272,887</i>	<i>822,635</i>	<i>643,490</i>	<i>594,861</i>	<i>694,113</i>
Contribution margin	406,241	576,963	575,945	306,491	1,081,612	499,476	277,369	534,406
Contribution margin %	59%	53%	52%	53%	57%	44%	32%	44%

Appendix B: Ticket System Evaluation Process Results

DRAFT

May 2003

ABO Ticketing Solution

The following is a summary of the evaluation of ticket solutions presented through RFP 16503. This evaluation is based on quantifiable indicators and represents the best solution for Trade Centre Limited, Halifax Metro Centre, and its new business venture, Atlantic Box Office (ABO).

Pacaiolan provides a far superior product and is in line with our business strategies right now and as we move forward with ABO. The solution provided by Tickets.com and Xwave are clearly inferior and would not support our immediate and future needs.

The decision was based on six weighted evaluation criteria. Each of these criteria was ranked according to specific information laid out in the RFP.

The following is a summation:

	Pacaiolan	Tickets.com	Xwave
System Quality (20)	19	10	5
Service/ Maintenance (15)	15	10	3
Regional Abilities (20)	19	0	0
Software abilities (15)	14	12	7
Product Flexibility (10)	10	9	5
Cost (20)	11	5	16
Total	88%	46%	36%

The following pages summate the results

RFP COMPARISON

PART A – ADMINISTRATION INFORMATION

CATEGORY	PACIOLAN	TICKET.COM	XWAVE
PROFILE	Founded 1980 25% of all tickets sold annually in North America by paciolan systems	Newly formed company acquiring small ticketing companies including Select-A-Seat	Canadian owned IT Company. Wholly-owned subsidiary of Aliant Inc. Alliance SRO founded 1996
REFERENCES	Yes Regional Ticketing Consortiums	No Did not provide any	Yes Performing Arts Center General Admission Bldg.
SOLUTION POSITION	Mission is to empower venues to grow their businesses, their way	Front office ticketing, in conflict with our goal to be the regional ticketing provider	No current sport facilities No regional ticketing clients.

PART B – APPLICATION AND TECHNICAL REQUIREMENTS

CATEGORY	PACIOLAN	score	TICKET.COM	score	XWAVE	score
HARDWARE						
• Work Stations	Specs provided Costs not included	na	Specs Included Costs not included	Na	Specs provided Costs included	na
• Peripheral	Specs / costs included	0	Omitted	-2	Specs & costs provided	0
TECHNICAL REQUIREMENTS						
• Auto back-up	Yes	0	Yes	0	Yes	0
• Restrictions	Yes	0	Yes	0	Omitted	-2
• Remote Outlet Set-Up	Complete Information	0	Incomplete Information	-1	Omitted	-2
Score		0		-3		-4
INTERNET COMPONENT						
• Sub/Renewal on-line	Yes	0	Yes	0	NO	-2
• Internet Revenue Collection	HMC	0	Tickets.com	-2	Misunderstood question	-2
• Ability for customer to update profile	Yes	0	Yes	0	No	-2
• Promoter Access	Yes	0	Yes	0	Misunderstood question	-2
• Best availability seating (by	Yes	0	Yes (ambiguous)	-1	Yes	0

customer)						
• Site Requirements	WAN (incomplete info)	-1	WAN (incomplete info)	-1	Dial-up (incomplete info)	-1
Score		-1		-4		-9

- 0 = Acceptable
- 1 = Partially Acceptable
- 2 = Unacceptable

CATEGORY	PACIOLAN	Pts	TICKET.COM	Pts	XWAVE	Pts
FUNCTIONALITY						
• Interface with other software	ODBC	0	ODBC	0	Development necessary	-1
• Ability to sell other venue tickets	Yes	0	Yes	0	Development necessary	-1
• Quick Sales (walk-up)	2 clicks	0	4 clicks	-1	Yes – no details	-1
• Wait list capabilities (e.g. subscribers)	Yes	0	Yes	0	No	-2
• Pick-ups Vs batch mailing	Yes	0	Yes	0	Incomplete answer	-1
• Postal code Vs zip code	Yes	0	Yes	0	Complicated method	-1
• Source coding (e.g. sobeys)	Yes	0	Yes	0	Custom development	-1
• Single seat restrictions	Yes	0	Yes	0	One time configuration Not regional compliant	-1
• Kiosks (etc) capability	Researching new provider	-1	Yes – no details provided (we have reservations)	-1	Yes – no details provided (We have reservations)	-1
Score		-1		-1		-10
INTERFACE/EXPORT/IMPORT						
• Mail Merges	Yes	0	Yes	0	Excel to word	-1
• ACII Format	Yes	0	Yes	0	Partial	-1
• Email Report/merge	Partial (in dev)	-1	Yes	0	Yes	0

• Accounting Software	Yes (in-house)	0	Interface to accpac	0	Interface to accpacc	0
Score		-1		0		-2

CATEGORY	PACIOLAN	Pts	TICKET.COM	Pts	XWAVE	Pts
SOFTWARE FLEXIBILTY						
• # standard plans	Yes	0	Yes	0	One time configuration Custom coding	-2
• create user defined fields	Yes	0	Incomplete	-1	Yes	0
• store/select/sort all fields	Yes	0	Incomplete	-1	Yes	0
• Global update	Yes	0	Yes	0	No	-2
• Automatic acct. Duplicate checks	Yes	0	No	-2	Yes	0
• Interactive help screen	Yes	0	Yes	0	In development	-1
• Unlimited email addresses	Yes	0	Yes	0	Omitted	-2
• Track current/lapsed seasons	Yes	0	Yes	0	Omitted	-2
• User friendly manuals	Yes	0	Yes	0	Omitted	-2
Score		0		-4		-11
DATA ENTRY						
• Consistent data format	Yes	0	Yes	0	One time configuration	-1
Score		0		0		-1

MARKETING FUNCTIONALITY						
• Ability to pull frequency stats etc	Yes	0	Yes, but no accompanying detailed information	-1	Yes, but no accompanying detailed information	-1
• Annual report by tickets etc	Yes	0	“	-1	“	-1
• Geographical breakdown	Yes	0	“	-1	“	-1
• Average # of tickets	Yes	0	“	-1	“	-1
• Customer households	Yes	0	“	-1	“	-1
• % occupancy per event etc	Yes	0	“	-1	“	-1
• Crossover attendance	Yes	0	“	-1	“	-1
Score		0		-7		-7
MAIL LIST MANAGEMENT						
• Create/export/import	Yes	0	Yes	0	To excel to word	-1
BIOGRAPHICAL INFORMATION	Yes	0	Yes	0	Creation required, doesn't Answer completely or correctly	-1
CUSTOMER SUPPORT						
• Training/customer support	24/7 & online	0	24/7 & online	0	One individual assigned	-2
• Local support	Toronto	0	Syracuse	0	Washington	0
• Support delivery method	Yes	0	Yes	0	Not online	-1
Score		0		0		-3

FINANCIAL

CATEGORY	PACIOLAN	TICKET.COM	XWAVE
Hardware Software Professional Services Less Discount	\$ 72,489 \$ 91,140 \$152,000 (25 days) (\$ 15,781) 5%	\$ 20,141 \$118,555 \$ 46,200 (20 days) (\$115,855) 100% 5yr license	Included Included Included (9 days)
TOTAL	\$299,848 US	\$69,041 US	\$613,146 CAN
YEARLY SUPPORT	\$32,000 US	\$23,640 US	\$65,750 CDN
INTERNET CHARGES	<ul style="list-style-type: none"> • 7% of service charge • minimum guarantee of \$24,000 US + restrictions 	<ul style="list-style-type: none"> • Third party transaction • Ticket.com will process settlement payments of gross ticket receipts with HMC on a weekly basis. They rebate us at a charge set by them • Ticket.com will charge HMC 2.6% for credit card transactions 	none
ADDITIONAL COSTS • PC's	29 PC's not included	29 PC's not included	29 PC's included in <u>price</u>



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