Assurance and Advisory
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Financial Statements

The Sony Centre for the Performing Arts
December 31, 2007

ERNST & YOUNG

Ernst & Young LLP

AUDITORS' REPORT

To the Board of Directors of
The Sony Centre for the Performing Arts

We have audited the balance sheet of **The Sony Centre for the Performing Arts** as at December 31, 2007 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Centre's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Centre as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
March 6, 2008.

BALANCE SHEET

As at December 31

	2007	2006
	$	$
ASSETS		
Current		
Cash	**2,789,853**	11,195,368
Accounts receivable *[note 14]*	**1,200,068**	961,684
Due from City of Toronto		
Capital Improvement and Rehabilitation Reserve Fund *[note 4]*	**521,464**	—
Trade receivables	**9,248**	—
Inventories	**35,050**	22,660
Prepaid expenses	**811,743**	182,394
Total current assets	**5,367,426**	12,362,106
Other asset *[note 13]*	**559,534**	—
Capital assets, net *[note 5]*	**1,525,997**	644,095
	7,452,957	13,006,201
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	**2,228,919**	9,215,273
Due to City of Toronto		
Capital Improvement and Rehabilitation Reserve Fund *[note 4]*	**—**	17,637
Operating surplus due to City of Toronto *[note 3]*	**23**	422,116
Trade payables	**52,450**	117,873
Deferred revenue *[notes 6 and 10]*	**1,309,054**	1,464,967
Advance ticket sales *[note 7]*	**2,336,514**	1,124,240
Total current liabilities	**5,926,960**	12,362,106
Deferred capital contributions *[note 8]*	**1,410,008**	510,874
Total liabilities	**7,336,968**	12,872,980
Commitments *[note 12]*		
Net assets		
Invested in capital assets *[note 9]*	**115,989**	133,221
Unrestricted	**—**	—
	7,452,957	13,006,201

See accompanying notes

On behalf of the Board:

Director

Director

STATEMENT OF OPERATIONS

Year ended December 31

	2007	2006
	$	$
REVENUE		
Operating		
Rental	**1,673,990**	4,105,294
Performance	**13,146,950**	18,523,884
Ancillary *[note 10]*	**3,327,077**	2,750,539
Interest and other *[note 13]*	**664,956**	142,965
City of Toronto grant	**1,174,900**	128,190
Amortization of deferred capital contributions	**204,304**	132,491
	20,192,177	25,783,363
EXPENSES		
Operating		
Salaries, wages and benefits *[note 11]*	**5,724,721**	7,735,018
Presentation and production	**11,933,723**	15,312,470
Ancillary *[note 10]*	**1,071,233**	990,407
Building operations	**732,068**	782,713
Administration	**512,106**	514,987
Amortization of capital assets	**235,535**	174,731
	20,209,386	25,510,326
Net operating (loss) income before transfer to City of Toronto	**(17,209)**	273,037
Transfer of operating income to City of Toronto *[note 3]*	**(23)**	(285,277)
Net results after transfer to City of Toronto	**(17,232)**	(12,240)

See accompanying notes

STATEMENT OF CHANGES IN NET ASSETS

Year ended December 31

	2007		
	Invested in capital assets	**Unrestricted**	**Total**
	$	$	$
	[note 9]		
Net assets, beginning of year	**133,221**	**—**	**133,221**
Change in accounting policy *[note 2]*	**—**	**49,795**	**49,795**
Net assets, beginning of year, as restated	**133,221**	**49,795**	**183,016**
Net results after transfer to City of Toronto	**—**	**(17,232)**	**(17,232)**
Derivative contracts matured during the year *[note 12[a]]*	**—**	**(49,795)**	**(49,795)**
Change in net assets invested in capital assets *[note 9]*	**(17,232)**	**17,232**	**—**
Net assets, end of year	**115,989**	**—**	**115,989**

	2006		
	Invested in capital assets	**Unrestricted**	**Total**
	$	$	$
	[note 9]		
Net assets, beginning of year	145,461	—	145,461
Net results after transfer to City of Toronto	—	(12,240)	(12,240)
Change in net assets invested in capital assets *[note 9]*	(12,240)	12,240	—
Net assets, end of year	133,221	—	133,221

See accompanying notes

STATEMENT OF CASH FLOWS

Year ended December 31

	2007	2006
	$	$
OPERATING ACTIVITIES		
Net results after transfer to City of Toronto	**(17,232)**	(12,240)
Add (deduct) non-cash items		
Amortization of capital assets	**235,535**	174,731
Donation of condominium unit	**(559,534)**	—
Amortization of deferred capital contributions	**(204,304)**	(132,491)
	(545,535)	30,000
Changes in non-cash working capital balances related to operations		
Accounts receivable	**(238,384)**	(674,892)
Due from/to City of Toronto	**(496,764)**	430,064
Inventories	**(12,390)**	(5,145)
Prepaid expenses	**(629,349)**	152,134
Accounts payable and accrued liabilities	**(6,986,354)**	8,024,674
Deferred revenue	**(155,913)**	643,727
Advance ticket sales	**1,212,274**	481,821
Cash (used in) provided by operating activities	**(7,852,415)**	9,082,383
INVESTING AND FINANCING ACTIVITIES		
Purchase of capital assets	**(1,117,437)**	(189,665)
Contributions received for capital purchases	**564,337**	251,434
Cash (used in) provided by investing and financing activities	**(553,100)**	61,769
Net (decrease) increase in cash during the year	**(8,405,515)**	9,144,152
Cash, beginning of year	**11,195,368**	2,051,216
Cash, end of year	**2,789,853**	11,195,368

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

1. OPERATIONS AND RELATIONSHIP WITH THE CITY OF TORONTO

In 2007, City Council approved The Board of Directors of the Hummingbird Centre for the Performing Arts [the "Board"] entering into a naming rights sponsorship agreement with Sony of Canada Ltd. for 20 years and the change in the name of the facility operated by the Board to the Sony Centre for the Performing Arts [the "Centre"]. The Centre is a theatre and centre for meetings, receptions and displays. The Board operates, manages and maintains the Centre under the terms of an agreement between the Board and the City of Toronto [the "City"].

The building is owned by the City and is therefore not recorded in these financial statements. Expenditures for major improvements to the Centre are charged directly to the "Capital Improvement and Rehabilitation Reserve Fund" which is recorded in the accounts of the City *[note 4]*. The Board has a capital surcharge on ticket sales for performances held. As the Board collects these monies, it forwards them to the City to be recorded in the Capital Improvement and Rehabilitation Reserve Fund. In addition, under the terms of the naming rights sponsorship agreement with the Sony of Canada Ltd., the Centre collects the monies due from Sony of Canada Ltd. and under the agreement with the City, forwards the amounts to the City to be recorded in the Capital Improvement and Rehabilitation Reserve Fund. These funds have been set aside by the City for future capital improvements to the Centre and various rehabilitation projects that are required.

The Board has an agreement with the City which established a "Stabilization Reserve Fund". The Stabilization Reserve Fund is also recorded in the accounts of the City *[note 3]*.

The Board is currently undergoing various stages of planning for a reconfigured site and revitalized future operations. Costs incurred to date are being accounted for by the City and funded through the Capital Improvement and Rehabilitation Reserve Fund. On June 30, 2008, the Board plans to cease programming operations for an anticipated period of approximately 15 months. During this period, the Board will be engaged in upgrading the mechanical and electrical systems in the Centre along with refurbishing the internal areas as part of the upgrade called "Enhancing the Mainstage" *[note 10]*.

In the normal course of operations the Board incurs costs for various expenses payable to the City such as hydro, legal and other administrative costs. Transactions between the City and the Board are made on normal trade terms consistent with unrelated entities.

The Board is a registered charity and, as such, is not subject to income taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied within the framework of the significant accounting policies summarized below:

Revenue recognition

The Board follows the deferral method of accounting for contributions which includes grants. Contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Restricted contributions are deferred and recognized as revenue in the period in which the related expenses are recognized. Externally restricted contributions for depreciable capital assets are deferred and amortized over the life of the related capital asset. Rental, performance and ancillary revenues are recognized on the date of the attraction, event or point of sale. Grants approved by City Council are recognized as revenue in the year for which they are approved.

Inventories

Inventories are recorded at the lower of cost [recorded on a first-in, first-out basis] and net realizable value.

Capital assets

Major capital facilities of the Board are recorded in the accounts of the City. Expenditures for major improvements to the Centre are charged directly to the Capital Improvement and Rehabilitation Reserve Fund which is recorded in the accounts of the City and are therefore not recorded as assets in these financial statements.

Other capital assets are recorded at cost. Amortization is provided on the straight-line basis over the estimated useful lives of the assets as follows:

Computer equipment	4 years
Stage equipment	10 years
Other equipment	5 years
Furniture	5 years

Contributed materials and services

Because of the difficulty of determining their fair value, contributed materials and services are not recognized in the financial statements.

Employee benefits

Contributions to a multi-employer defined benefit pension plan and to defined contribution pension plans are expensed when due.

Derivative financial instruments and cash flow hedging strategy

A substantial portion of the Board's purchases are denominated in U.S. dollars. The Board utilizes derivative financial instruments in the management of its foreign currency exposure. The Board's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Board enters into hedges of its foreign currency exposures on anticipated foreign currency denominated expenses and resulting cash flows within the following year by entering into offsetting forward foreign exchange contracts, when it is deemed appropriate.

The Board documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking derivatives to forecasted transactions.

Hedges are recorded at fair value and included on the balance sheet. The effective portion of the gain or loss is recorded as a direct increase in net assets and the ineffective portion, if any, is recognized in the statement of operations.

Derivative contracts entered into by the City, of which the Board is a party to, are not designated to be in a hedging relationship and are recorded at their fair value as an asset or a liability based on quoted market prices or dealer quotes with changes in fair value recorded in building operations on the statement of operations.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing rates of exchange at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expenses are translated at the exchange rates on the date of transaction. Realized and unrealized exchange gains and losses are included in income.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

New and future accounting policy changes

Effective January 1, 2007, the Board adopted the recommendations of CICA 3855: *Financial Instruments – Recognition and Measurement*, CICA 3861: *Financial Instruments – Disclosure and Presentation* and CICA 3865: *Hedges.* CICA 3855 establishes standards for recognizing and measuring financial instruments including the accounting treatment for changes in fair value. As permitted by CICA 3855, the Board's financial assets and liabilities continue to be presented at amortized cost, which approximates fair value. In addition, in accordance with the new standards for hedges, the Board's hedges of its foreign currency exposures are measured at fair value at the year end date and included on the balance sheet. Other derivatives not used as hedges are also recorded at fair value. The effective portion of the gain or loss is recorded as a direct increase in net assets, and the ineffective portion, if any, is recognized in the statement of operations. In prior years, no value was recorded for these contracts on the balance sheet.

As required by the transitional provisions of CICA 3855, the change in accounting policy was adopted retroactively, without restatement of the prior year's financial statements. The impact on the balance sheet as at January 1, 2007 of recording the derivative contracts at fair value is an increase to the cash balance of $49,795 and an increase in unrestricted net assets of $49,795.

The CICA has issued two new standards, CICA 3862: *Financial Instruments – Disclosures* and CICA 3863: *Financial Instruments – Presentation*, which enhance the abilities of users of financial statements to evaluate the significance of financial instruments to an entity, related exposures and the management of these risks.

The CICA has issued a new accounting standard CICA 1535: *Capital Disclosures*, which requires the disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital.

The above two changes in accounting policies, which will be adopted effective January 1, 2008, will only require additional disclosures in the financial statements.

3. STABILIZATION RESERVE FUND

The changes in the Stabilization Reserve Fund balance, which is recorded in the City's accounts *[note 1]*, are as follows:

	2007 $	2006 $
Balance, beginning of year	**171,680**	161,942
Interest income	**9,505**	9,738
Balance, end of year	**181,185**	171,680

Under the operating agreement with the Board, the City is entitled to the operating surpluses of the Board and responsible for the Board's deficits in any year. In certain years since 1996, the Board has been allowed by the City to transfer its operating surplus into the Stabilization Reserve Fund for the purpose of putting income aside in profitable years in order to offset deficits in other years. The last such transfer of operating income into the Stabilization Reserve Fund allowed by the City was in 2004.

The current year transfer of operating income to the City is calculated as follows:

	2007 $	2006 $
Net operating (loss) income before transfer to City of Toronto	**(17,209)**	273,037
Add (deduct) non-cash items		
Amortization of capital assets	**235,535**	174,731
Amortization of deferred capital contributions	**(204,304)**	(132,491)
Purchase of capital assets internally funded *[note 5]*	**(13,999)**	(30,000)
Transfer of current year operating income	**23**	285,277

4. CAPITAL IMPROVEMENT AND REHABILITATION RESERVE FUND

The changes in the Capital Improvement and Rehabilitation Reserve Fund balance, which is recorded in the City's accounts *[note 1]*, are as follows:

	2007 $	2006 $
Balance, beginning of year	**3,023,746**	3,448,656
Revenue from ticket capital surcharge	**520,911**	865,502
Federal grant *[note 10]*	**405,000**	—
Corporate contribution	**90,250**	—
Investment income	**125,323**	185,476
Funding of capital asset purchases *[note 5]*	**(1,103,438)**	(159,665)
City capital costs - related to the Board's building maintenance and business planning *[notes 1 and 10]*	**(1,364,887)**	(1,316,223)
Balance, end of year	**1,696,905**	3,023,746

As at December 31, 2007, a balance of $702,205 [2006 - $293,000] was receivable from the City from the Capital Improvement and Rehabilitation Reserve Fund in connection with expenditures made by the Centre and recoverable from the City. In addition, the Centre had ticket capital surcharges due to the City to the Capital Improvement and Rehabilitation Reserve Fund of $180,741 [2006 - $310,637]. The net receivable of $521,464 [2006 - net payable of $17,637] is recorded on the balance sheet.

December 31, 2007

5. CAPITAL ASSETS

Capital assets consist of the following:

	2007		
	Cost $	**Accumulated amortization** $	**Net book value** $
Computer equipment	**440,142**	**309,277**	**130,865**
Stage equipment	**1,833,588**	**633,428**	**1,200,160**
Other equipment	**242,020**	**204,321**	**37,699**
Furniture	**343,059**	**185,786**	**157,273**
	2,858,809	**1,332,812**	**1,525,997**

	2006		
	Cost $	**Accumulated amortization** $	**Net book value** $
Computer equipment	376,894	262,615	114,279
Stage equipment	889,882	499,653	390,229
Other equipment	242,020	177,320	64,700
Furniture	232,576	157,689	74,887
	1,741,372	1,097,277	644,095

The increase in net book value of capital assets is due to the following:

	2007 $	**2006** $
Balance, beginning of year	**644,095**	629,161
Purchase of capital assets internally funded	**13,999**	30,000
Purchase of capital assets funded by capital contributions *[note 4]*	**1,103,438**	159,665
Amortization of capital assets	**(235,535)**	(174,731)
Balance, end of year	**1,525,997**	644,095

NOTES TO FINANCIAL STATEMENTS

6. DEFERRED REVENUE

Deferred revenue includes unredeemed gift certificates, sponsorships for future events, rent deposits and advance ticket sales from tickets sold prior to December 31 for performances presented by the Board in the following year.

7. ADVANCE TICKET SALES

Advance ticket sales represent funds received from tickets sold prior to December 31 for performances presented by rental clients in the following year.

8. DEFERRED CAPITAL CONTRIBUTIONS

The continuity of the deferred capital contributions balance is as follows:

	2007 $	**2006** $
Balance, beginning of year	**510,874**	483,700
Amortization of deferred capital contributions	**(204,304)**	(132,491)
Contributions restricted for the purchase of capital assets *[note 4]*	**1,103,438**	159,665
Balance, end of year	**1,410,008**	510,874

9. NET ASSETS INVESTED IN CAPITAL ASSETS

Net assets invested in capital assets is calculated as follows:

	2007 $	**2006** $
Capital assets, net	**1,525,997**	644,095
Less amounts financed by deferred capital contributions *[note 8]*	**(1,410,008)**	(510,874)
Balance, end of year	**115,989**	133,221

The change in net assets invested in capital assets is calculated as follows:

	2007 $	2006 $
Purchase of capital assets internally funded	**13,999**	30,000
Less amortization of capital assets	**(235,535)**	(174,731)
Add amortization of deferred capital contributions	**204,304**	132,491
	(17,232)	(12,240)

10. GOVERNMENT GRANTS

In 2007, the Board received $93,750 from the Federal government's Celebrate Ontario program used to support the presentation of Irving Berlin's White Christmas. Of this amount, $91,071 has been recognized as revenue in 2007 with the balance relating to the remaining performance week to be recorded in 2008. The Board also entered into an agreement with the Ontario Tourism Marketing Program of the Province of Ontario to promote Irving Berlin's White Christmas [2006 – Radio City Christmas Spectacular] to tourists outside the Greater Toronto Area. Direct marketing expenses of $36,595 [2006 - $50,512] were substantially covered by grants of $32,000 [2006 - $50,000] from this program. Of this amount, $27,428 has been recognized in 2007 and the balance relating to the remaining performance week to be recorded in 2008.

In 2007 the Federal Minister of Canadian Heritage, through the Cultural Spaces Canada program, approved a grant of $450,000 in infrastructure funding for the Board's upgrade called "Enhancing the Mainstage". Expenditures of $948,623 were made in 2007 on this project. An amount of $405,000 of the approved grant was received in 2007 and a further $45,000 is expected in 2008. The grant and the related expenditures have been recorded in the Capital Improvement and Rehabilitation Reserve Fund in the City's accounts *[note 4]*.

11. EMPLOYEE BENEFITS

The Board makes contributions to the Ontario Municipal Employees' Retirement Fund ["OMERS"], which is a multi-employer pension plan, on behalf of most of its employees. The plan is a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Employees and employers contribute jointly to the plan.

Because OMERS is a multi-employer pension plan, any pension plan surpluses or deficits are a joint responsibility of all Ontario municipalities and their employees. As a result, the Board does not recognize any share of the OMERS pension surplus or deficit. Employers' current service contributions to the OMERS pension plan in 2007, which were expensed, are $180,766 [2006 - $182,059].

In addition to "other-than-continuous full-time" offers to participate in the OMERS plan, the Board has arrangements with bargaining units to make contributions to registered retirement savings plans on behalf of its employees. Contributions expensed under these plans for 2007 amounted to $104,425 [2006 - $156,439].

12. COMMITMENTS

[a] Foreign exchange contracts

As at December 31, 2007, the Board had no open forward foreign exchange contracts committing it to purchase U.S. dollars.

As at December 31, 2006, the Centre had open forward foreign exchange contracts committing it to purchase U.S. $1,150,000 [$1,290,300 CDN] maturing from February 2007 to December 2007. The fair value of these forward foreign exchange contracts was $1,340,095 CDN.

[b] Leases

The Centre is committed to future minimum annual lease payments for equipment under operating leases as follows:

	$
2008	19,434
2009	19,434
2010	19,434
2011	19,202
2012	12,272
	89,776

13. OTHER ASSET

In 2007 the Board was the recipient of a gift of a condominium unit scheduled for completion in 2010. This donation has been recorded on the balance sheet as other asset and included in the statement of operations in interest and other income. The intention of the Board is to resell the condominium unit at a time that maximizes value.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

14. FINANCIAL INSTRUMENTS

The Board is exposed to gains/losses that arises with respect to the degree of volatility of foreign exchange rates. The Board, during the normal course of operations, will have contractual obligations in United States dollars for artists and attractions which are subject to foreign exchange gains/losses between the time of contracting and the time of payment. Depending on the quantum of the exposure, the Board may use foreign exchange contracts to reduce the possibility of loss from changes in the value of the United States dollar relative to the Canadian dollar at the time of contracting.

The Board is exposed to changes in electricity prices associated with a wholesale spot market for electricity in Ontario. The Board has addressed the commodity price risk exposure associated with changes in the wholesale price of electricity by entering into energy related purchase and sales contracts, through an agreement with the City that fixes a portion the wholesale price over the term of the contract. All contracts entered into in 2007 expired on December 31, 2007.

Accounts which are receivable result in exposure to credit risk since there is a risk of counterparty default. The Board provides for an allowance for doubtful accounts to absorb potential credit losses. As at December 31, 2007, two accounts represent 59% of the total accounts receivable balance [2006 - one account represented 79%].

The carrying values of the Centre's financial instruments approximate their fair values unless otherwise noted.

15. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from the statements previously presented to conform to the presentation of the 2007 financial statements.