



CITY OF KINGSTON
REPORT TO COUNCIL

Report No.: 12-101

TO: Mayor and Members of Council

FROM: Denis Leger, Commissioner of Transportation, Properties & Emergency Services

DATE OF MEETING: March 6, 2012

SUBJECT: K-ROCK Centre - 2012 Annual Operating Plan/Budget and 2011 Unaudited Financial Statements

EXECUTIVE SUMMARY:

This report is before Council to enable SMG, the operator of the K-Rock Centre, to present its 2012 Annual Operating Plan. In the Plan, SMG provides background information relating to the 2011 operations, its 2012 budget submission and its operational and other strategies for the upcoming year.

This report also provides unaudited financial information and key performance measures relating to the operations of the K-Rock Centre for the period ending December 31, 2011.

RECOMMENDATION:

That Council approve the operator SMG's 2012 Annual Operating Plan which reaffirms the approved 2012 net annual budget submission of \$700,000 in net operating income net of a capital contribution to reserve fund of \$100,000.

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AUTHORIZING SIGNATURES:

ORIGINAL SIGNED BY COMMISSIONER _____ Denis Leger, Commissioner of Transportation, Properties & Emergency Services

ORIGINAL SIGNED BY CHIEF ADMINISTRATIVE OFFICER Gerard Hunt, Chief Administrative Officer
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CONSULTATION WITH THE FOLLOWING COMMISSIONERS:

Cynthia Beach, <i>Sustainability & Growth</i>	N/R
Lanie Hurdle, <i>Community Services</i>	N/R
Jim Keech, President, <i>Utilities Kingston</i>	N/R

(N/R indicates consultation not required)

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OPTIONS/DISCUSSION:**2012 SMG OPERATING PLAN**

The operator's 2012 Annual Operating Plan which includes its 2012 budget submission is attached as "Exhibit A" of this report. SMG had previously submitted a 2012 budget of \$700,000 (net income from operations), the amount which has been reaffirmed in the Annual Operating Plan. The chart below outlines the budget submission contained therein relative to past performance.

K-Rock Centre 2012 Projected Income Statement					
	Proposed Budget 2012	Approved Budget 2011	Unaudited 2011	Audited 2010	Audited 2009
Event Revenues					
SMG Event Revenue	\$ 1,060,046	\$ 1,206,703	\$ 618,305	\$ 1,168,337	\$ 1,104,167
Frontenacs Event Revenue	384,388	369,209	276,435	280,140	221,196
Total Event Revenues	\$ 1,444,434	\$ 1,575,912	\$ 894,740	\$ 1,448,477	\$ 1,325,363
Total Other Revenues	1,335,822	1,252,569	1,246,261	1,156,678	1,115,378
Total Revenues	\$ 2,780,256	\$ 2,828,481	\$ 2,141,001	\$ 2,605,155	\$ 2,440,741
Total Expenses	\$ 1,980,255	\$ 2,028,481	\$ 1,722,228	\$ 2,094,041	\$ 1,746,369
Net Income from Operations	\$ 800,000	\$ 800,000	\$ 418,773	\$ 511,114	\$ 694,372
Capital Reserve Fund	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)
Net Income	\$ 700,000	\$ 700,000	\$ 318,773	\$ 411,114	\$ 594,372
Note - The Kingston Frontenacs are scheduled to play 40 games in 2011 and are projected to play 42 games in 2012					

In 2011, despite receiving industry accolades for the third consecutive year, the K-Rock Centre will have experienced the lowest annual net income from operations for a full calendar year since the opening of the venue in 2008. A preliminary analysis of the results of 2011 operations is provided in the following section of this report. The operator's 2012 Annual Operating Plan outlines some of the challenges that the industry faced in 2011 and provides an outlook, developments and strategies for 2012.

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2011 YEAR END REVIEW

The details of the 2011 financial results relative to the SMG budget submission are summarized as follows:

Table 1

Revenues	2011 SMG Budget	2011 Actual (unaudited)	Variance
Event Income	\$1,575,918	\$894,740	\$(681,178)
Facility Revenues			
Suites/Club Seats	697,825	665,379	(32,446)
Naming/Advertising	377,244	409,226	31,982
Ice Rentals	170,000	166,173	(3,827)
Other	7,500	5,483	(2,017)
Subtotal	\$1,252,569	\$1,246,261	\$(6,308)
Total Revenues	\$2,828,487	\$ 2,141,001	\$(687,486)
Expenses			
Operating	\$(2,028,487)	\$(1,722,228)	306,259
Contribution to Capital	(100,000)	(100,000)	-
Net Income	\$700,000	\$ 318,773	\$(381,227)

The approved SMG 2011 operating budget submission anticipated net operating income of \$700,000 (net of the annual capital reserve contribution requirement of \$100,000). This Council-approved budget is as amended on March 11, 2011. The City's 3rd quarter report for the period ending September 30, 2011 (Report 12-002) which was presented to Council on December 6, 2011, projected a 2011 year-end net operating income of approximately \$275,000. The 2011 unaudited financial statements presented by the operator reflect net income from operations of \$318,773.

Performance Indicators

Financial performance indicators have been developed for the K-ROCK Centre to evaluate how well the Centre is performing in relation to the SMG submitted budget. The overall financial success of the K-ROCK Centre is primarily based on the number of spectator (ticketed) events (i.e. SMG events and Kingston Frontenacs' games) and attendance at these events.

The financial indicators include:

- Net Operating Income - net operating income (net of the capital reserve contribution)
- Event Income - rent, food & beverage, novelty, facility surcharges and ticket rebates
- Total Other Income - suites, club seats, ice rentals, sponsorship and advertising revenues and other revenues
- Facility Expenses - facility operating expenses

The results and key performance indicators for the period ending December 31, 2010 are outlined in Exhibit "B" of this report.

Year End Results

The overall event income (rent, food & beverage, novelty, facility surcharges and ticket rebates) portion of revenues for the period has met 57% of the annual budgeted amount (\$894,740 of the total \$1,575,918).

- Net Operating Income was \$318,773 (46% of the projected amount)
- Event Income was \$894,740 (57% of the projected amount)
- Total Other Income was \$1,246,261 (99 % of the projected amount)
- Facility Expenses were \$1,722,228 (85% of the projected amount)

A) Event Income

The facility realized event income totaling \$894,740 which is \$681,178 less than what had been submitted in the 2011 SMG budget amount of \$1,575,918. Event income is primarily affected by the number of spectator (ticketed) events, attendance at these events and related patron spending on food and beverage. Even though the key performance indicators indicate that the number of events exceeded the total anticipated by 17 events (i.e. 126 actual vs. 109 budgeted), the more telling number is the total number of spectator (ticketed) events that took place: 39 vs. 47 projected. Accordingly, attendance for SMG spectator events is at 59% of expected totals, whereas in the case of the Frontenacs, attendance is at 72% of projections.

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The following table further examines the number of events, attendance figures and event income variances from budget by distinguishing between spectator (ticketed) and non-spectator events:

	Events			Attendance			Income		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
SMG Spectator Events	39	47	(8)	62,440	150,410	(87,970)	599,966	1,179,850	(579,884)
Frontenacs	40	45	(5)	83,514	115,805	(32,291)	276,435	369,214	(92,779)
Sub Total	79	92	(13)	145,954	266,215	(120,261)	876,401	1,549,064	(672,663)
Non-Spectator	47	17	30	38,376	19,635	18,741	18,339	26,854	(8,515)
Total	126	109	17	184,330	285,850	(101,520)	894,740	1,575,918	(681,178)

B) Non-Event Specific Revenues

The non-event specific revenues total \$1,246,261 and are tracking relatively well at \$6,308 less than the overall budget of \$1,252,569. Suite revenues are tracking at 94% of budgeted revenues as five of the suites whose license terms have expired have not been renewed. Attempts are being made to seek new licensees for these suites.

Ice rental revenues realized were \$166,173 which is \$3,827 less than budgeted.

C) Expenses

The expenses for the facility were \$1,722,228, which is \$306,259 less than budgeted and is largely attributed to a lesser number of spectator events being held than what had originally been budgeted, thereby reflecting a lesser overall expense level.

ECONOMIC IMPACT

In 2011, the City had commissioned an Economic Impact Analysis for the K-Rock Centre for the years 2009 and 2010, the first two full years of operation. The report which was presented in March 2011 had concluded that the total annual economic impact for 2009 and 2010 ranged from \$15M to \$16.5M. The report provided information on employment, new economic activity and other qualitative impacts. From this report, it can be further intimated that the operations of the K-Rock Centre has continued to yield a net positive economic impact in 2011.

EXISTING POLICY/BY LAW:

N/A

NOTICE PROVISIONS:

N/A

ACCESSIBILITY CONSIDERATIONS:

N/A

FINANCIAL CONSIDERATIONS:

In accordance with policy, the Municipal Capital Reserve Fund is utilized for purposes of financing municipal infrastructure costs where services do not have related capital reserve funds or where related capital reserve funds have insufficient amounts to cover expenditure and/or long term debt servicing obligations.

The net difference between the revised 2011 budget and the actual results will be financed from overall city operations. Accordingly, this will be incorporated into the overall City financial summary of operations to be before Council in April 2012.

CONTACTS:

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Properties & Emergency Services

613-546-4291, Ext. 1328

OTHER CITY OF KINGSTON STAFF CONSULTED:

Steve Dickey, Deputy City Treasurer

Desiree Kennedy, Director of Financial Services and City Treasurer

EXHIBITS ATTACHED:

Exhibit A – SMG – 2012 Annual Operating Plan

Exhibit B – K-ROCK Centre- December 31, 2011

- Key Performance Indicators
- Income Statement



2012 ANNUAL OPERATING PLAN

THE K-ROCK CENTRE

MARCH 6, 2012



*Worldwide Entertainment and
Convention Venue Management*

2012 ANNUAL OPERATING PLAN

K-ROCK CENTRE

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FACILITY BACKGROUND

While financially the K-Rock Centre did not meet the financial targets, the K-Rock Centre fared well, especially when compared to like-sized venues. In the VENUES TODAY mid-year rankings, the K-Rock Centre was ranked 14th on its list for highest gross ticket sales for venues under 10,000 capacity **worldwide**. In the full year rankings for Canadian venues, the K-Rock Centre was first for venues under 10,000 seats. In fact numbers were so strong, relatively, that the K-Rock Centre would have actually finished second for venues with 10,000 to 15,000 seats if it were 5,000 seats larger. While this is no comfort when missing revenue targets, it does add perspective to the fact that business is down across the industry, not just at the K-Rock Centre. In fact a third consecutive nomination for “Facility of the Year under 8,000 Capacity” at Canadian Music Week is a testament that the facility is still regarded as a top facility in Canada.

The pro-forma financials contained within the business plan for the K-Rock Centre called for net income from operations of \$922,000 on gross revenues of \$2,580,000 in the partial year of 2008; \$1,114,000 in 2009 on gross revenues of \$2,960,000 and \$1,075,000 in 2010 on gross revenues of \$3,101,000. For 2011 the net income expectation was lowered to \$700,000 on gross revenues of \$2,828,912. This change was a result of City Council approving and amending net income expectations based on a City staff report that identified areas of revenue and expenses contained in the initial business plan that had not come to fruition including; a seven day a week restaurant operation; ice rental figures that were ambitious in light of overall availability and demand considerations and lower than expected Frontenacs attendance. For 2012 the K-Rock Centre is budgeting net income of \$700,000 on gross revenues of \$2,780,000.

The first full year of operation, fiscal 2009, saw net operating profit income increase to \$694,000 prior to a \$100,000 contribution to the Capital Replacement Fund on gross revenues of \$2,440,741. Fiscal 2010 saw a decrease to \$511,114 prior to a \$100,000 contribution to the Capital Replacement Fund on gross revenues of \$3,101,070. Estimates for fiscal 2011 are projected to be in the range of \$400,000 to \$450,000, prior to a deduction a \$100,000 contribution to the Capital Replacement Fund on Gross Revenues of \$2,141,000.

2011 RE-CAP

Events

The second line of the “Event re-cap for 2010” in the 2011 Operational Plan we wrote, “*while the total number of events exceeded budget, a drop-off in concerts, from 19 in 2009 to 13 in 2010, showed that the echo effect of the recession that struck in 2009 eventually caught up with the live concert touring business.*” This unfortunately also proved prophetic for 2011 where we saw concert business continue to drop off, this time to twelve performances, including just two full mode concerts. One category of touring music that we believed would remain strong was the Canadian music touring scene. After six Canadian acts in the stub year of 2008 and 10 in each of 2009 and 2010, Canadian touring acts accounted for just three of the twelve concerts in 2011. This would indicate that the trepidation seen with international artists also caught up to the Canadian artists, it just took longer.

A growing factor affecting arenas in secondary and tertiary markets is the growth of the festival market in the summer months. Festivals are challenging for arenas since: 1) artists are paid guarantees upfront, more than most arenas can afford, and these fees are not dependant on ticket sales (i.e. they are paid the same amount even if the festival does poorly); 2) festivals absorb a large number of artists in a few days, often more than would play in one area in an entire summer; 3) they are more lucrative for promoters since the promoters control every single revenue stream from tickets sales, to on-site advertising, to food and beverage; 4) festival contracts come with time and distance restrictions that prevent artists from playing in areas considered part of the festivals drawing area, usually for 90 days (about the length of our summer); 5) they are often financially assisted by government grants and/or subsidies for cultural events. One example is the Ottawa Blues Festival which, over 11 days, presents more than 230 different shows at five different stages. While not all of these are of the caliber that would allow them to play the K-Rock Centre, over two dozen of these acts could have played either our theatre or full modes.

While the concert scene disappointed there was some positive news. New events for 2011 included galas dinners, community job fairs, convocation, religious and spiritual events, international sporting events and our biggest fundraising dinner ever. These events coming to the K-Rock Centre are the result not only of a respected operation but also the history of success previous events in the facility.

OTHER REVENUES

i. Suites

Suites are no longer in sold out position with five vacant suites as of this time. For the 2012 season our suites are in the following position:

- Two (2) in the first year of a three year deal
- One (1) in the first year of a seven year deal
- Seven (7) in the fourth year of a five year deal
- Nine (9) in year four of a seven year deal

- Five (5) suites exist with modified deals due to different contractual obligations (Molson, Coke, K-Rock Radio, the Kingston Frontenacs and the City of Kingston's Community Suite).

The economy, along with the lower level of event activity, has had an impact on our suite sales. Of the five that are currently vacant, all were licensed to non-corporate entities. We continue to try to replace these suites with long term contracts as well as explore modified licenses (shared, part-time) that might help to fill up our vacancies. Short of licenses we will rent suites on an event-by-event basis to recover as much of the lost revenue as possible.

ii. Club Seats

Club seat sales continue to be strong and, due to their lower price point, have been less affected by the slower economy. While there was some turnover this year all have been replaced. As with suites, the ability to retain our club seat holders over the long term is again dependant on the event load and the success of the Kingston Frontenacs. While the Frontenacs may not challenge for a playoff spot they have already proven to be an entertaining club. Just as importantly our event load seems to be on the upswing from 2011.

As of December 31, 2011, revenue from Club seats sales was at 99% of budget or \$191,827.

Currently, the club seat contracts for the 2011/2012 season consist of:

- 1 year terms – 191 tickets
- 3 year terms – 74 tickets
- 5 year terms – 284 tickets
- There are an additional 14 unsold single seats

Our waiting list has now shrunk in size since fulfilling individuals that were awaiting tickets. The club seat waiting list now consists of individuals waiting for specific seat locations to become available.

iii. Ice Rentals

In 2011, the K-Rock Centre operated at 92% capacity of available prime time ice rental and 98% of budgeted revenue. This means the largest area of potential growth continues to be in non-prime hours. The present level of ice time available within the city suggests that as a growth area, ice rentals are limited.

iv. Sponsorship and Advertising

As of December 31, 2011, Sponsorship and Advertising revenue are projected to be 108% of budgeted revenues. The continued state of the economy has affected sponsorship and advertising sales and heading in to 2012 we are not overly optimistic for a significant improvement in the business climate. We do however remain optimistic for the future. Additional success for the team could help increase some sales however a reexamination of the current advertising space locations indicates that additional “365-day” exposure within the bowl (back-lits that are up for every event unlike rinkboard, scoreclock and in-ice advertising that are only in view for hockey games) could result in additional advertising dollars. The ability to add backlit advertising within the bowl has been confirmed however there would be a significant capital outlay required, significantly larger than the annual \$50,000 capital expenditure included in the operating budget.

EXPENSES

In 2011, expenses are projected to be \$1.722M or 15% under budget. These savings are the result of a number factors; some savings due to staff turnover, reorganization and delays in appointments; belt tightening to reflect lower event revenues; renegotiation of some supplier agreements and reduction in utilities usage.

Approximately 11% of the overall savings are attributable to savings in utilities (electricity, gas, water/sewer, telephones, and internet).

2012 BUDGET SUBMISSION

The live entertainment business is fluid and highly unpredictable. Acts can schedule months in advance or some times, just weeks. Tours can be planned, booked and routed then cancelled on a whim at the last minute. Acts that were never supposed to tour can reappear inexplicably and route a tour in a week. Since facilities cannot compel an act to tour, we are a business with relatively no control over the most profitable inputs required to do business. The result is that establishing the overall budget is even more challenging since the revenue side of the equation is difficult to determine with the accuracy found in many industries.

In order to estimate the revenues, facility operators use a combination of advance bookings (fairly good indicators since some events are confirmed months in advance and we can count on a certain percentage of 'holds' materializing into confirmed events) and "best guesses." The best guesses are based on the level of "activity" that is occurring in the present, extrapolated months out, based on both history and experience. This estimated level of activity is judged based on the number of phone calls that are taken from promoters, the number of tours we hear about through agents (SMG Corporate is also a great source of this information) and trends seen in recent event ticket sales as tracked through various trade publications and our related SMG facilities.

When the 2011 budget submission was made, in August of 2010, the confirmed events and holds resulted in a Q1 2011 that was very close to budget. However much of the activity that we used to predict Q2, Q3 and Q4 2011 failed to materialize and we missed the budget target. Since budget submission in the operating agreement calls for the budget to be delivered 180 days out, these challenges in accurately predicting after Q1 will be ongoing.

With these considerations in mind our budget for 2012 does not differ significantly from the 2011 budget. The \$700,000 benchmark that was established last year is again the basis for the 2012 budget. However one must keep in mind that with the current attendance levels seen by the Frontenacs and a still weak touring industry, the \$700,000 mark is indeed a stretch goal. Achieving this level of operating profit will require a return to the levels of activity seen in 2009. While achieving the 23 concerts that we hosted in 2009 is likely not realistic, the reappearance of Cirque du Soleil, and an increase in non-concert entertainment, will help to replace a number of shows that may not materialize.

For 2012, SMG Canada ULC is proposing a budget to The City of Kingston based on the management agreement and uses the City's amended revenue expectations. As a result, for 2012 K-Rock Centre management is reconfirming a net income from operating budget of \$700,000 as previously delivered to the City and approved by City Council in late 2011.

K-Rock Centre				
2012 Projected Income Statement				
	Proposed	Approved	Audited	Audited
	Budget 2012	Budget 2011	2010	2009
Event Revenues				
SMG Event Revenue	\$ 1,060,046	\$ 1,206,703	\$ 1,168,337	\$ 1,104,167
Frontenacs Event Revenue	384,388	369,209	280,140	221,196
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Capital Reserve Fund	(100,000)	(100,000)	(100,000)	(100,000)
Net Income	\$ 700,000	\$ 700,000	\$ 411,114	\$ 594,372
Note - The Kingston Frontenacs are scheduled to play 40 games in 2011 and are projected to play 42 games in 2012				

SMG Event Assumptions

The 2012 budget again predicts the total number of events at 109. As indicated earlier forecasting for the year, after Q1, is predicated on industry “noise” and experience. These factors seem to indicate a higher level of activity versus 2011 however it seems, at present, to indicate levels still could remain lower than 2009 event totals. One piece of good news is that our biggest concert promoter, Live Nation Canada, currently has four concerts on sale for 2012, more than they promoted in Kingston in all of 2011.

Kingston Frontenacs’ Event Assumptions

The proposed budget for 2012 predicts a flat attendance profile for the Kingston Frontenacs. Currently in a rebuilding year the Frontenacs have traded many of last year’s starters for draft picks and have also lost a number to professional hockey

Paid attendance	Exhibition Games (3)	Regular Season Games (34)	Playoff Games (4)
Business Plan	2,000	4,000	4,800
2010 Approved	1,500	3,500	4,550
2011 Approved	2,200	2,544	3,048
2012 Projected	2,200	2,544	3,048

Conclusion

The budget for 2012 therefore continues to be what we feel is a best case scenario budget. If event numbers trend upwards but do not reach 2009 it is likely that net income for 2012 will fall somewhere between \$400,000 and \$500,000.

PLANNED OPERATING MAINTENANCE

Currently planned operating maintenance continues to be of a routine nature. One area of continuing concern is the inability of the roof drains to remove large rainfalls in an expeditious manner, occasionally forcing excess rainfall to enter the facility through roof access doorways. We are currently exploring the ability to have either increased drainage capacity and/or new curbs around the door entrances to allow for water build-up without resulting in migration under the current doors.

MINOR CAPITAL IMPROVEMENTS AND EQUIPMENT PURCHASES

The following capital items are requested by K-Rock Centre management based on a needs assessment for the venue and fall under one of the following criteria: life safety; revenue generation; reduction of expenses; improvement of service; operational efficiency; or capital improvement/replacement. The minor capital request has been factored into the 2012 budget submission and as in past years, the list has been forwarded to the City's contract administrator for approval.

Radios for events	\$18,000
Railing around Fly Grid	\$10,000
Beam detectors	\$8,000
Carpeting in Club Lounge	\$7,000
Replacement of glass to Coated Scratch Resistant true .500" for penalty area	\$2,500
Digital projector and screen for boardroom	\$2,000
Snow blower	\$1,000
Drapes for boardroom	\$500
Storage shelves for Ops tool rooms	\$500
Upholstery Extractor	\$500
Total Proposed Capital Expenditures	\$50,000

ADVERTISING AND PROMOTIONAL STRATEGIES

SALES STRATEGIES WITH KEDCO

Though advertising numbers remain healthy the K-Rock Centre is currently exploring a relationship with KEDCO to take advantage of their deep reach in to the new and existing business community. While

many aspects of an agreement have been discussed a formal arrangement is not in place. Any agreement will respect agreements already in place through SMG's facility operating agreement and the Kingston Frontenacs lease.

GROWING THE K-ROCK CENTRE CATCHMENT AREA

While ticket selling success had been consistent through the first three years of operation, 2011 has shown that not all events are sell-outs at the K-Rock Centre. The economic realities of our current times has proven that certain shows that may have sold out in the past now need a larger area from which to draw potential ticket buyers. Marketing budgets however have not been growing nor do many events wish to buy advertising in the smaller surrounding areas. With this in mind the K-Rock Centre marketing department has spent considerable time expanding the marketing footprint through print and radio trade advertising. Trade advertising involves the exchange of unused tickets for advertising in place of cash. The use of trade tickets has proven successful and has allowed us, in certain cases, to almost match the dollar value of paid advertising spent on traditional media.

In addition to increasing our media exposure in the southeastern Ontario region, we have also attended a northern New York/Fort Drum information session organized by the Mayor's office and New York State politicians. This event showed the size of the Fort's impact on the northern New York State economy while giving us new outlets for exposing our events to this same market. At this time it is impossible to say whether this market will grow for us but we have made some inroads with Fort officials, town officials, economic development officials and media outlets.

A good sign for certain concerts has been the willingness of promoters to host events in both Ottawa and Kingston as has happened recently for both the Moody Blues concert and comedian Jeff Dunham. Some promoters feel that the overlap of the markets is a concern while others see it as an opportunity to stretch marketing dollars with larger buys covering both markets. The success of these shows is important in further convincing promoters that Kingston is a true stand-alone market.

K-ROCK CENTRE IN THE COMMUNITY

To better recognize the K-Rock Centre's place in the community the marketing department will start a monthly press release outlining our participation. This press release will cover donations of tickets, suites and merchandise that is used for fundraising by dozens of organizations per year. The K-Rock Centre will also use this release to recognize the events that the K-Rock Centre participates in through donations of equipment, staff time and facility space. Events such as the doctor's rostering clinic; annual flu vaccine clinics; KEYS Job Fair; K2K Spinathon for Solider On; The Big Bike for Heart and Stroke and many more.

EVENTS

The 2012 budget submission of \$1.44M for total event revenues projects a year-over-year increase in event activity over 2011 actual results, and is comparable to the \$1.45M in event revenue the facility generated in 2010.

SMG Events

The SMG component of event revenues is projected to be \$1.06M in 2012, which is an increase of roughly 70% over management's projected 2011 results, but comparable to the 2010 (\$1.17M) and 2009 (\$1.10M). This will require management to attract incremental high revenue touring acts and other high profile events in 2012, more in line with the 2009 or 2010 levels.

2012 will see the return of Cirque du Soleil to the event calendar. This alone will add eight more shows to the first quarter than 2011. The real issue however is the prospect of the return of additional concerts, and more importantly additional concerts in our 5,000+ seat mode. These events are the biggest money makers for the K-Rock Centre and each requires several smaller events to replace.

While declining concert numbers continues to be a concern SMG has focused on ensuring that other mainstream entertainment and community events become a bigger part of the K-Rock Centre calendar. The relative success of entertainment events like **comedy** (Jeff Dunham, Russell Peters, Dane Cook, Bill Cosby, Trailer Park Boys, Larry the Cable Guy, Jerry Seinfeld); **theatre** (Jesus Christ Superstar, Cats, Wizard of Oz); **arts** (Moscow Ballet, Blue Man Group, Cirque du Soleil, So You Think You Can Dance, Lord of the Dance); **special events** (Deepak Chopra, St. Lawrence Convocation, Limestone Learning Foundation Crystal Ball, Canada Volleyball, National Day of Prayer, Skate Canada); and **trade and consumer shows** (Chiefs of Police, Insurance Adjusters Trade show, Primerica Conference) indicate that the K-Rock Centre will always hold a significant place in the Kingston event scene, even when concert activity is at a low point. At the same time building these other event streams will only serve to strengthen the K-Rock Centre if and when the concert touring business picks up again.

KEDCO and SMG

As part of our efforts to ensure maximum event revenue KEDCO and SMG have worked on several events together including World Junior Hockey Pre-Tournament Games, Skate Canada, Volleyball Canada – World League Qualifiers, BDO Grand Slam of Curling, and the Scotties Tournament of Hearts. SMG will attend sport tourism events to put forth a united front with event organizers.

Kingston Frontenacs

The proposed budget for 2012 calls for the facility's portion of revenues from Kingston Frontenacs' games to reach \$384,000. This is a slight increase over the 2011 budgeted amount of \$369,000 but a significant increase over 2011 actual results. With an increase in business operations staff and additional success on the ice it is hoped that these numbers will be more achievable.

STRATEGIES TO ENHANCE REVENUES

FOOD AND BEVERAGE

Currently our food and beverage operation is relatively stable, year over year, based per capita sales. However net revenues have decreased due to the reduction in event activity. Changes have once again been made to the suite menu, an annual refresh, but no significant increases in prices or in fare are contemplated at this time. Capital changes will be required to make significant changes to the menu or add additional points of sale. Without significant increases in attendance levels for hockey games increases in food and beverage revenues will strictly be largely dependent on our ability to attract additional events such as playoff games or major events not currently in the budget.

ADVERTISING

While advertising revenues have held relatively steady there are currently some significant vacancies on the clock, some empty rink boards and vacant concourse level back-lit signs. Staff has been exploring alternatives for packaging multiple signs, discounting on multiple purchases, providing discounts to premium clients and focusing further on supplier participation in the facility.

SUITES

As mentioned earlier the K-Rock Centre currently has five open suites. While prospects for individual sales appear to be unfavourable at this time we are exploring the creation of partnerships of smaller companies to share suites. We are also actively selling suites on an event by event basis and will continue to do until we license the remainder of the suites.

K-ROCK CENTRE ADVISORY GROUP

The K-Rock Centre advisory group continues to meet quarterly though the last summer meeting was pre-empted due to scheduling issues and an email update was distributed. The advisory group make-up has not changed and the group continues to communicate outside of regular meetings on matters such as public relations, press coverage, tenant relations and suggestions on pricing and benefits for premium seating and advertising.

EVENTS

While the K-Rock Centre continues to be an entertainment centre, with our focus on bringing world class events to the Kingston area, the facility has also found its place as venue for a variety of other uses. This is the true nature of 'public assembly facilities' and something of which we are tremendously proud.

i. Confirmed Events

The K-Rock Centre currently has seven concerts on sale or completed in 2012. These seven concerts through May compares with five through the same period in 2011. For Q1 2012 the confirmed events are currently at 46 of 46 which will not likely change. Included within the 46 events are four Frontenacs

playoff games which at the writing of this document seem unlikely. Included with the 46 budgeted events were four meetings. As of this time eight meetings have taken place at the K-Rock Centre

This is encouraging but we remain cautious in our final budget since Frontenacs hockey is a huge part of our success and they currently are in a rebuilding phase.

ii. Unconfirmed Events

The event calendar for the first half of the year, as mentioned earlier, appears stronger than 2011. If we are able to confirm a high percentage of the current holds the second quarter will indeed be better than 2011. We will continue to work with each event promoter, keeping them informed of sales trends for similar events as well providing overall sales trends for all events.

One area that does have room to grow, ironically, is the family show market. The initial overabundance of family shows seemed to be overwhelming for the community. The end result has been a dearth of family shows except for Disney Live, the Harlem Globetrotters, Old-Timers Hockey, Shrine Circus and WWE Wrestling. There are a number of other shows that have emerged over the last couple of years that may be able to enhance the line-up without adversely affecting the shows we currently host. Two or even three more shows, if they are properly spaced, should not hurt the current line-up.

Our theatre line-up for the following year looks to be gaining momentum. While the offerings in the past have been more 'classic' in nature our partner has some current holds that will be of a more recent genre, including Mamma Mia which is now on sale. We believe these performances will enable us to grow the market in Kingston by appealing to a broader segment of the greater Kingston population than just a typical theatre crowd.

CONCLUSION

In last year's conclusion we wrote, "*while this report does put forth some potential scenarios that could lead to improvements in the overall bottom line, it's unlikely that we will achieve the business plan's results, at least in the short term, without a significant and sustained improvement in the operating results of the main tenant and the return of the international concert acts to the venue.*" With just eleven concerts (and of those, just two in full 5,000 seat mode) the concert business only got worse. For a full year, 2011 was our toughest year yet for the biggest contributor to our event revenues.

With this in mind SMG acted a partial co-promoter on its first event at the K-Rock Centre helping to bring Alice Cooper to the facility in December. SMG was only a "partial" co-promotional party since SMG was only involved to cover any losses on the show should they have occurred, not to share in any profit. In this case the show made profit, all of which was shared by the K-Rock Centre and the co-promotional partner.

Following the Alice Cooper date SMG corporate is now promoting their first event in the K-Rock Centre, country star Billy Currington. This date is currently on sale and is doing well. In this case SMG will be the recipient of any promoter profit while the facility will receive the exact same revenues, through all streams available to the K-Rock Centre, as they would if the concert was being promoted by another

promoter. While SMG is not typically in the business of acting as a promoter, SMG is committed to the K-Rock Centre and the City of Kingston. Therefore SMG has altered its typical venue operating arrangements to allow for this type of activity. In this case another successful country act will allow us to build our resume and reinforce the viability of the K-Rock Centre as a country music venue.

**K-Rock Centre
Key Performance Indicators
For the Twelve Months Ending December 31, 2011**

EXHIBIT B

EVENT REVENUES (YTD)		
Number of Events	Overall Attendance	Event Income

NON-EVENT REVENUES (YTD)					
Shared Accountability			SMG Accountability		
Suites Revenue	Club Seats Revenue	Sponsorship & Advertising Revenue	Ice Rental Revenue	Other Income	Total

SMG Accountability
Expenses

OVERALL KPI (YTD)
Net Operating Income

K-Rock Facility (Overall)			
Actual	126	184,330	\$ 894,740
Budget	109	285,850	\$ 1,575,918
Variance	17	(101,520)	\$ (681,178)
% Achieve	116%	64%	57%

\$ 473,552	\$ 191,827	\$ 409,226	\$ 166,173	\$ 5,483	\$ 1,246,261
\$ 503,670	\$ 194,155	\$ 377,244	\$ 170,000	\$ 7,500	\$ 1,252,569
\$ (30,118)	\$ (2,328)	\$ 31,982	\$ (3,827)	\$ (2,017)	\$ (6,308)
94%	99%	108%	98%	73%	99%

\$ 1,722,228
\$ 2,028,487
\$ (306,259)
85%

\$ 318,773
\$ 700,000
\$ (381,227)
46%

SMG Canada			
Actual	86	100,816	\$ 618,305
Budget	64	170,045	\$ 1,206,704
Variance	22	(69,229)	\$ (588,399)
% Achieve	134%	59%	51%

Kingston Frontenacs			
Actual	40	83,514	\$ 276,435
Budget	45	115,805	\$ 369,214
Variance	(5)	(32,291)	\$ (92,779)
% Achieve	89%	72%	75%

**K-Rock Centre
Income Statement
For the Twelve Months Ending December 31, 2011**

	Current Month Actual	Current Month Budget	Year to Date Actual	Year to Date Budget
EVENT INCOME				
Event Revenue	42,833	73,387	281,697	499,672
F & B Concessions	27,083	45,487	184,334	276,215
Novelty Sales	2,263	300	25,983	48,252
Ticket Surcharges	54,172	68,715	402,726	751,779
Total Event Income	126,351	187,889	894,740	1,575,918
OTHER OPERATING INCOME				
Luxury Box Agreements	34,222	41,967	473,552	503,670
Club Seat Agreements	15,751	16,175	191,827	194,155
Advertising	32,906	31,437	409,226	377,244
Ice Rentals	10,703	25,000	166,173	170,000
Other Income	470	625	5,483	7,500
Total Other Operating Income	94,052	115,204	1,246,261	1,252,569
Total Income	220,403	303,093	2,141,001	2,828,487
Facility Expenses	61,469	182,866	1,722,228	2,028,487
Net Income from Operations	158,934	120,227	418,773	800,000
Capital Reserve Expense	8,333	8,333	100,000	100,000
Net Income (Loss)	\$ 150,601	\$ 111,894	\$ 318,773	\$ 700,000