

October 25, 2006
VANOC Annual Report

Financial Statements

Vancouver Organizing Committee for the
2010 Olympic and Paralympic Winter Games
For the year ended July 31, 2006

Table of Contents

Management Discussion and Analysis	3
Audited Financial Statements For the year ended July 31, 2006	17

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

On July 2, 2003, the City of Vancouver was awarded the right to host the 2010 Olympic and Paralympic Winter Games (the "Games") by the International Olympic Committee ("IOC") based in part on the efforts of the Vancouver 2010 Bid Corporation (the "Bid Corporation"). The Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games ("VANOC") was organized as a not-for-profit company without share capital under Part II of the *Canada Corporations Act* on September 30, 2003 and registered extra-provincially under the *BC Society Act*. VANOC is exempt from income taxes under the *Income Tax Act* (Canada).

VANOC's mandate is to support and promote the development of sport in Canada by planning, organizing, financing and staging the Games.

In July 2005, VANOC completed its first comprehensive Business Plan. It expects to develop an updated version of its Business Plan by late 2006 that will be finalized in early 2007, three years in advance of the Games. VANOC's strategy is founded on seven strategic objectives:

- Engage the nation by sharing the journey to create a distinctly Canadian Olympic and Paralympic experience.
- Create the conditions that will provide an extraordinary experience for athletes and all Games participants.
- Build a team that passionately lives our values in order to achieve extraordinary performance.
- Take responsibility for successful relationships with all of our partners in order to optimize their participation in, contribution to and legacy from Canada's Games.
- Generate sufficient revenue and manage costs and risk in order to ensure a positive financial legacy.
- Be a disciplined and entrepreneurial organization with sound business processes, controls and tools that enable us to effectively manage the business of planning and staging the Games.
- Manage the social, environmental, and economic impact and opportunities of our Games, in ways that will create lasting benefits, locally and globally.

OVERVIEW

With just over three years to go until the Opening Ceremonies, VANOC is where it needs to be in the Games planning life cycle. The team is growing, the Games delivery program is in development across the entire organization and the information and risk management systems are in place to support the next phase of Games planning operations.

Venue construction is on budget with secured government funding and a healthy contingency relative to the uncommitted capital funds. Excellent progress is being made at all venues and we expect to meet the targeted venue completion dates to support VANOC's goal of maximizing venue testing and athlete training opportunities well before the Games.

The sponsorship program continues with strong momentum; revenues are up significantly year over year.

The VANOC Business Plan is currently being updated and will be presented to the Board of Directors in fall 2006 with an anticipated public release in early 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management Discussion and Analysis refers to the discussion and analysis of VANOC's deferred operating revenues and expenses, venue development activities and financial position. As the quarter just completed was the fourth quarter of VANOC's fiscal year, annual audited financial statements of VANOC for the year ended July 31, 2006 are provided. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

This Management Discussion and Analysis contains forward-looking statements, including those regarding the business and anticipated financial performance of VANOC. These statements are subject to a number of risks and uncertainties that may cause actual results to differ materially from those contemplated in the forward-looking statements.

The results of deferred operating revenues and expenses and venue development activities included in this Discussion and Analysis are presented for the year ended July 31, 2006 with comparative figures for the preceding year. As VANOC has an extended operating cycle with a steep growth curve, management has also elected to report its results on a project-to-date basis as it is believed this provides meaningful comparative information to the readers of the accompanying financial statements and this Discussion and Analysis.

The results of deferred operating revenues and expenses and venue development activities are recorded in the periods received or incurred and deferred over the extended operating cycle which concludes in 2010 with the staging of the Games. Accordingly, no amounts are reflected in the accompanying interim financial statements as prepayments and no assets have been amortized or depreciated through this extended operating cycle as they will be expensed with the staging of the Games in 2010.

The following Discussion and Analysis comprises seven sections:

1. Deferred Operating Revenues and Expenses
2. Venue Development Activities
3. Liquidity, Capital Resources and Financial Condition
4. Financial Instruments and Foreign Currency Hedging
5. Risks
6. Transactions with Related Parties
7. Outlook

1. DEFERRED OPERATING REVENUES AND EXPENSES

The deficiency of deferred operating revenues over deferred expenses was \$17.5 million and \$16.0 million for the years ended July 31, 2006 and 2005 respectively. It is typical for Games organizing committees to operate at a deficit in their early years as a substantial portion of revenues are generated closer to Games time.

Deferred Revenues

Net deferred revenues were \$32.2 million and \$4.3 million for the years ended July 31, 2006 and 2005 respectively. Deferred revenues for the year ended July 31, 2006 include cash sponsorship revenue of \$38.0 million, value in kind ("VIK") sponsorship revenue of \$6.5 million, licensed merchandise royalties of \$3.4 million and other income of \$1.1 million. Deferred revenues are presented net of \$16.6 million in marketing royalties which are paid to the IOC and the Canadian Olympic Committee ("COC"). The increase of \$27.9 million compared to the preceding year is attributed to the overall growth in activity and the activation of several major sponsor agreements.

Marketing Revenues

VANOC enters into arrangements with sponsors for the sale of VANOC's marketing rights and other assets in exchange for cash, goods and services as VIK, or both.

Marketing revenues for the current and past year were as follows:

	Year ended July 31, 2006	Year ended July 31, 2005
Cash sponsorship	\$38,000,000	\$nil
VIK sponsorship	6,454,909	1,345,006
Licensed merchandise	3,382,979	21,250
Subtotal	47,837,888	1,366,256
Less: marketing royalties	(16,639,411)	(3,567,328)
Marketing revenue, net	<u>\$31,198,477</u>	<u>\$(2,201,072)</u>

The substantial growth in sponsorship revenue over the preceding year reflects the successful conclusion of six Tier 1 marketing agreements as previously announced. Each of these companies contributed significant cash and/or VIK during the year. During the three months ended July 31, 2006, VANOC also entered into term sheets with EPCOR Utilities Inc. in the water utility category, and the Royal Canadian Mint in the minting of circulation, precious metal and base metal numismatic and bullion coins category.

VANOC also enters into licensing arrangements for the supply and sale of licensed merchandise bearing VANOC and COC marks in exchange for royalties on merchandise sold. Licensed merchandise revenue was \$3.4 million and \$21,250 for the current and preceding year. This activity, and the annual increase of \$3.4 million, relates to the activation of the licensed merchandise program through Hbc and the related sales of licensed merchandise around the Torino 2006 Olympic and Paralympic Winter Games ("Torino Games") in February and March 2006.

VANOC records deferred cash sponsorship and licensing revenue as it is received or receivable. VIK revenue is recorded as the respective VIK goods and services are acquired by VANOC. VIK revenue recorded during the year included telecommunications goods and services, banking services, vehicles, fuel, building products, uniforms and clothing and office furniture.

Marketing royalty payments to the IOC and COC were \$16.6 million and \$3.6 million for the years ended July 31, 2006 and 2005 respectively. Royalty payments are paid in installments, and are in respect of cash and VIK sponsorship and licensing revenue received by VANOC. The increase of \$13.0 million, compared to the preceding year, relates to the timing of the fixed minimum payment to the COC, and to the related increases in sponsorship and licensing revenue.

Investment and Other Income

Investment and other income was \$1.1 million and \$0.2 million for the current and preceding year, respectively. The increase of \$0.9 million is due to the receipt of \$460,000 from a transfer of surplus cash from Bid Corporation and other sources.

Deferred Expenses

Deferred expenses were \$49.7 million and \$20.3 million for the years ended July 31, 2006 and 2005 respectively. This increase of \$29.4 million over the preceding year is due to the overall increase in activity as VANOC grows and the Games move closer.

Sport, Paralympic Games and Venue Management

Deferred sport, Paralympic Games planning and venue management expenses were \$1.3 million and \$0.7 million for the years ended July 31, 2006 and 2005 respectively. Expenditures relate to activities associated with planning the 2010 Games, travel to Olympic and sport-related events and the development of weather reporting systems.

Revenue, Marketing and Communications

Deferred revenue, marketing and communications expenses were \$3.8 million and \$2.9 million for the years ended July 31, 2006 and 2005 respectively. These expenses consist primarily of sponsorship sales and service activities, communications events, brand and creative services and sponsor recognition activities related to the Torino Games. The increase over the preceding year reflects the rise in activity as VANOC grows.

Human Resources and Sustainability

Deferred human resources and sustainability expenses were \$23.6 million and \$10.6 million for the years ended July 31, 2006 and 2005 respectively. The increase of \$13.0 million over the preceding year results from an increase in staff levels to 250 full-time equivalent employees at July 31, 2006.

Finance, Administration and Legal

Deferred finance, administration and legal expenses were \$12.8 million and \$4.3 million for the years ended July 31, 2006 and 2005 respectively. These expenses consist primarily of the cost of acquiring, fitting out, and operating VANOC's office, interest and banking charges, financial systems, insurance and

legal fees. The increase of \$8.5 million over the preceding year results from the ongoing growth in staff and the move to, fitting out and furnishing of the VANOC campus office space.

Service Operations and Ceremonies

Deferred service operations and ceremonies expenses were \$2.4 million and \$0.6 million for years ended July 31, 2006 and 2005 respectively. The increase of \$1.8 million over the preceding year results from the costs associated with planning for the Games and the staging of VANOC's portion of the Closing Ceremonies for the 2006 Torino Games.

Technology and Systems

Deferred technology and systems expenses of \$3.6 million and \$1.1 million for years ended July 31, 2006 and 2005 respectively represent costs associated with delivering technology requirements to the existing VANOC team and planning for the provision of technology and telecom services for the 2010 Games. The \$2.5 million increase over the preceding year relates, in part, to infrastructure costs associated with the new VANOC campus office space and the technology costs required to support the increase in VANOC staff.

Unrealized Foreign Exchange Loss

The unrealized foreign exchange loss was \$2.1 million for the year ended July 31, 2006 and \$0.1 million for the year ended July 31, 2005. Substantially all of the unrealized foreign exchange loss relates to the mark to market of VANOC's forward foreign exchange contracts. These contracts are revalued at each reporting period and any unrealized gains or losses are recognized in the financial statements. These contracts are more fully described in section 4 of this Discussion and Analysis and in the notes to the accompanying financial statements

2. VENUE DEVELOPMENT ACTIVITIES

Venue development activities increased substantially over the preceding year as considerable construction work was undertaken, especially at the outdoor venues. The excess (deficiency) of revenues over expenses for venue development activities were \$7.2 million and \$(8.7) million for the years ended July 31, 2006 and 2005 respectively. The change was due largely to the timing of the receipt of venue development funds as compared to the timing of related expenditures.

Revenues

Government Contributions

Government contributions were \$64.0 million and \$33.7 million for the years ended July 31, 2006 and 2005 respectively. Contributions of \$64.0 million from Canada during 2006 relate to venue development activities during both 2006 and 2005. Such contributions are made pursuant to contribution agreements between VANOC and Canada. On a project-to-date basis, venue development funding from BC totals

\$81.0 million while funding from Canada totals \$72.1 million. On August 30, 2006, VANOC completed the contribution agreement with Canada for the funding of its venue development expenditures for the government fiscal year of April 1, 2006 through March 31, 2007.

Pursuant to the Multiparty Agreement, Canada and BC have agreed to each contribute \$235 million towards the development of venues for the Games for a total of \$470 million. This commitment from Canada and BC was based on the original estimate for construction costs prepared by the Vancouver 2010 Bid Corporation in its 2002 submission to the IOC and was based in 2002 dollars according to IOC requirements and bid rules. VANOC recently received confirmation from Canada and BC that they will fund an additional \$110 million (\$55 million each) for the venue construction program, to total \$580 million.

Marketing Revenues, net

VIK contributions from VANOC's sponsors, made pursuant to marketing agreements between VANOC and its commercial partners that are used in the venue development program, are recorded as both revenue and expenditures in the venue development fund. During the year ended July 31, 2006, such transactions totalled \$0.6 million, comprised of fuel, vehicles and building materials.

Investment and Other Income, net

Net investment and other income was \$0.2 million for the year ended July 31, 2006 and \$0.5 million for the year ended July 31, 2005. Investment and other income includes the receipt of interest on restricted contributions from BC for the Hillcrest curling venue and the Hastings Park skating venue which is offset by interest costs incurred to fund venue development activities prior to payment from its government partners.

Expenses

Venue development expenses totalled \$57.6 million for the year ended July 31, 2006 and \$42.8 million for the year ended July 31, 2005. The largest part of these expenditures in 2006 related to work at the Whistler Nordic competition venue and the Whistler Sliding Centre. In 2005, a grant was made to the City of Richmond in respect of the speed skating oval. The overall increase of \$14.8 million over the preceding year reflects the shift from design and preparation work to construction for the outdoor venues.

Cypress Freestyle and Snowboard Venue

Expenses related to the Cypress freestyle and snowboard venue were \$1.0 million and \$0.1 million for the years ended July 31, 2006 and 2005 respectively. These activities relate primarily to environmental assessment and design of the Cypress reservoir pump station and site preparation work for the ski and snowboard courses.

Hastings Park Skating Venue

Expenses related to the Hastings Park skating venue were \$2.7 million and \$1.2 million for the years ended July 31, 2006 and 2005 respectively. Project-to-date expenditures of \$3.9 million include the replacement of seats and expansion of the rink slab at the Pacific Coliseum.

Hillcrest Curling Venue

Expenses related to the Hillcrest curling venue were \$0.6 million for the year ended July 31, 2006. These expenditures relate to design and architecture services.

Richmond Speed Skating Oval

Expenses related to the Richmond speed skating oval were \$2.9 million for the year ended July 31, 2006 and \$30.2 million for the year ended July 31, 2005. These expenses relate to VANOC's share of the expenditures incurred to date at the venue pursuant to the venue agreement between VANOC and the City of Richmond. The payment in 2005 was an advance of funds to Richmond that had been received from BC.

Whistler Alpine

Expenses related to the Whistler alpine venue were \$4.5 million for the year ended July 31, 2006. These expenses were for design work, site preparation work and the acquisition of materials and snowmaking equipment.

Whistler Nordic Competition Venue

Expenses related to the Whistler Nordic competition venue were \$22.2 million for the year ended July 31, 2006 and \$5.9 million for the year ended July 31, 2005, and now total \$28.7 million on a project-to-date basis. The increase of \$16.3 million over the previous year relates to the transition from site engineering and design services to on-site construction. These costs are comprised of civil works, site preparation, on-site construction of bridges, roads, trails and paths and the ski jump structure, as well as erosion, sediment and rock management costs.

Whistler Sliding Centre

Expenses related to the Whistler Sliding Centre were \$23.6 million and \$5.3 million for the year ended July 31, 2006 and 2005 respectively. Project-to-date expenditures now total \$29.2 million. The increase of \$18.3 million relates to the transition from site engineering and design services to on-site construction. These costs primarily relate to on-site construction of the buildings and track, including track refrigeration as well as roadwork and on-site utility development.

3. LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL CONDITION

VANOC's operating activities are financed by its revenues from sponsorships, broadcasting, ticketing and other sources related to the marketing and merchandising of the Games. VANOC's venue development activities are financed by contributions from BC and Canada. As of July 31, 2006, VANOC had cash and restricted cash balances of \$20.2 million. In addition, as of July 31, 2006, VANOC has borrowings against its demand credit facilities in the amount of \$48.0 million.

Cash used in venue development and operating activities was \$19.1 million and \$21.7 million for the years ended July 31, 2006 and 2005 respectively. The activity in the venue development fund was a source of \$7.2 million in 2006, largely reversing the \$8.7 million used in 2005. This change is attributed to the timing of receipt of government funding for the venue program. A \$17.5 million increase in net deferred operating costs was the primary use of cash resources in 2006 and is comparable to the \$16.0 million used in 2005. In both years, this represents the excess of deferred expenses over deferred revenues for the period. The remaining net uses (sources in 2005) resulted from relative changes in working capital, primarily accounts receivable and accounts payable and accrued liabilities balances.

Cash provided by investing and financing activities was \$19.1 million and \$21.7 million for the years ended July 31, 2006 and 2005 respectively. These balances consist primarily of borrowings under a demand credit facility offset (enhanced in 2005) by changes in restricted cash balances. These restricted cash balances relate to expenditures for the Hillcrest curling venue and the Hastings Park skating venue which were previously funded by BC and reimbursed by Canada.

Working capital requirements arise from the timing differences between the receipt and use of funds and are financed through demand credit facilities that provide for VANOC to borrow up to \$50 million for its operating and venue development requirements. Subsequent to July 31, 2006, VANOC concluded new revolving credit facilities aggregating \$95 million with availability through to March 31, 2010. Restricted cash balances of \$20.2 million consist of \$9.5 million for Hillcrest curling venue, \$8.4 million for Hastings Park skating venue and \$2.3 million related to restricted lien holdback amounts. The restricted venue amounts were funded in March 2004 by BC for future development activities related to these venues.

VANOC believes that future cash flows from sponsorship, licensed merchandise, broadcasting, government contributions and other sources, along with the borrowing capacity under the existing demand credit facilities will provide sufficient funds to meet cash requirements. VANOC has material commitments with respect to its operations and venue development activities as referenced in the accompanying financial statements. Depending on the amount of revenue generated and the timing of the receipt of such revenue, it may be necessary to increase its available credit facilities in order to finance its future operations as the planning and organizing for the Games approaches 2010. VANOC is confident such credit facilities will continue to be available throughout the course of the project.

4. FINANCIAL INSTRUMENTS AND FOREIGN CURRENCY MANAGEMENT

VANOC's financial instruments consist of cash, restricted cash, accounts receivable, refundable deposits, an operating and a capital demand credit facility, accounts payable and accrued liabilities and forward

foreign exchange contracts. The fair values of these financial instruments approximate their carrying values. VANOC's risk on interest and credit facilities on these instruments is considered to be minimal.

VANOC will receive a significant portion of its revenues related to broadcasting and certain other sources in foreign currencies, primarily the US dollar and the Euro. VANOC's policy is to manage its known foreign currency cash flows with a primary objective to protect against the risk of appreciation of the Canadian dollar relative to foreign currencies. VANOC does not enter into derivative transactions for speculative or trading purposes. During the year ended July 31, 2006, VANOC was able to confirm future net cash advances in the amount of US\$240 million and EUR50 million and entered into forward foreign exchange option contracts to sell these foreign denomination cash flows at specified future dates through to March 2009. The "downside" weighted average rates protected with these forward contracts are at 1.087 for US dollars and 1.405 for Euros. The forward option contracts also provide for participation, within defined limits, in the benefit of a depreciation of the Canadian dollar. The structure of this participation is described more fully in the notes to the accompanying financial statements. Subsequent to the year end, VANOC received US\$17 million denominated funds in advance of their anticipated date and settled its corresponding forward contract position for these cash flows, resulting in a realized gain of \$23,000.

5. RISKS

VANOC has some exposure to the following primary risks in achieving its strategic objectives and mandate.

VANOC's venue program is funded by revenues from its senior government partners (BC and Canada). Government funding required for venue development activities is projected to be \$580 million. This amount has now been committed by the two governments. With a current contingency of \$66.8 million, management considers the venue program fully funded and is confident of completing the venue program without further government funding.

Financial Risks: The majority of operating revenues are received from sponsorships, broadcasting, merchandise sales and ticket sales. The amount of future broadcast and sponsorship revenue is dependent upon negotiations with third parties, and, as such, the total value is not confirmed at this time.

In addition, as much of VANOC's revenue is received in foreign currencies, the risk of continued appreciation of the Canadian dollar is being managed through the use of forward foreign exchange contracts. Finally, given the nature of the Games, VANOC faces some risk of unanticipated costs in staging the Games. Version 2 of VANOC's Business Plan will include a contingency to address such risks.

Performance Risks: VANOC has an active risk management program in place. Where practical and possible, risks and uncontrollable conditions such as weather are incorporated into planning activities and mitigation strategies are adopted.

Reputation Risks: The reputation of VANOC must be maintained at the highest standard to give confidence to its partners, sponsors and other stakeholders, and to maintain the public trust.

6. TRANSACTIONS WITH RELATED PARTIES

VANOC is a party to the Multiparty Agreement with, and its Board of Directors includes persons appointed by: BC, Canada, Resort Municipality of Whistler, City of Vancouver, Canadian Paralympic Committee and the

Canadian Olympic Committee. As well, the Lil'wat and Squamish First Nations act together to appoint a person to the VANOC Board of Directors. From time to time in the normal course of operations, VANOC may enter into transactions with these parties. These transactions are disclosed in the Notes to the accompanying financial statements.

7. OUTLOOK

Over the next 12 months, activity in all of VANOC's major functional areas will increase as the Games draw closer. Venue construction will continue to be very active into the fall, marketing and communications activities will be at their peak and the development of the 2010 sport program will be concluded. In addition, operational planning will advance significantly.

Finance, Planning and Operations

VANOC is currently engaged in an extensive business planning and operational budgeting process. With leaders now recruited for most of VANOC's 53 functions, and with knowledge available from the Torino Games experience, an expanded planning process is underway. This work will result an updated Business Plan and budget being developed in late 2006 and released in early 2007

VANOC's next quarterly report, for the first quarter ended October 31, 2006, will be issued in December 2006.

Workforce

VANOC continues to actively recruit key staff in all functional areas. It is anticipated that VANOC's full-time employee workforce will continue to increase at a substantial rate.

The recently launched Pre-Games Volunteer Program will also grow in the coming months as volunteers provide assistance with transportation, event organization, community relations and other duties in Vancouver and Whistler.

Marketing

Negotiations and discussions are progressing in a number of key sponsorship categories. As of July 31, 2006, VANOC has concluded 10 sponsorship agreements and expects to announce approximately six new partnerships by the end of calendar year 2006. Sponsorship revenue committed to date currently exceeds the amount projected in the Vancouver 2010 Bid Book. Planning activities for VANOC's ticketing program will begin this year to prepare for the anticipated public sale beginning in the spring or summer of 2008.

In addition, expansion of VANOC's licensed merchandise program will occur over the next several months with many new products bearing VANOC marks becoming available for purchase in the upcoming year.

Venues

VANOC continues to undertake significant construction activity in order to maintain its venue construction schedule and meet major milestones. Summer and fall 2006 constitute very active periods of construction activity for VANOC. The majority of design work has been completed on projects to be constructed by VANOC and tenders for outdoor venue construction work have been awarded. VANOC's \$580 million venue program budget and 2006 construction program is summarized below:

Venues constructed by partners with VANOC \$ contribution	millions \$	2006 Construction Program	Anticipated completion
UBC ice hockey arena	\$37.6	Phase 1 Demolition and start of construction	Spring 2008
Richmond Speed Skating Oval	62.4	Site clearing preparation and start of construction	Fall 2008
Whistler Olympic and Paralympic (Athletes) Village	37.5	Site clearing and preparation	Summer 2009
Vancouver Olympic and Paralympic (Athletes) Village	30.0	Site preparation and shoreline rehabilitation	Fall 2009
Training venues/other grants	10.0	Design work underway by the City of Vancouver	Fall 2008
Subtotal	\$177.5		

Venues constructed/upgraded by VANOC			
Hillcrest curling venue	\$38.0	Environmental approvals/site design	Fall 2008
Whistler Athlete Centre	16.0	Environmental approvals/site preparation	Fall 2008
Whistler Sliding Centre	99.9	Track foundation and footings, commencement of track structure and support buildings	Winter 2007 (December)
Whistler Nordic competition venue	115.7	Site preparation, grading, bridge construction, start day lodge and sport buildings	Fall 2007
Cypress freestyle and snowboard venue	14.6	Site clearing/grading, start construction of snowboard venue and snowmaking reservoir	Fall 2007
Whistler alpine	26.2	Snow making system and course improvements	Fall 2007
Hastings Park skating venue	25.2	Ice slab widening to international size	Fall 2007
Other	6.9		
Subtotal	\$342.5		

Contingency	\$66.8
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Less: Sponsor VIK contribution, net	\$(6.8)
Total Venues	\$580.0

Venues are being constructed on a timeline to ensure most are competition-ready two years before the Games to provide ample training time for Canadian athletes to become familiar with the venues prior to the Games. Early scheduled completion dates provide an inherent contingency of time should unanticipated problems occur. This schedule, which provides for the earliest completion of competition venues in recent Olympic Games history, allows for venue readiness through test events and other training and competition in advance of the Games.

As of August 30, 2006, BC and Canada approved VANOC's request to provide additional venue funding of \$55 million each in addition to the original funding commitment of \$470 million to provide a total venue construction budget of \$580 million. By the end of the construction season in 2006, VANOC anticipates that approximately 55 per cent of its \$580 million venue program will be spent.

VANOC continues to rigorously examine the venue program for cost and operational efficiencies. On August 21, 2006, VANOC and the Resort Municipality of Whistler ("RMOW") announced the 2010 Paralympic Winter Games ice sledge hockey tournament will be moved to the UBC Winter Sports Centre and that wheelchair curling will be moved to the Hillcrest curling venue, both located in Vancouver. The RMOW will forgo the building of a new arena in Whistler in exchange for VANOC's commitment to transfer to the RMOW a minimum of \$3 million (originally included in VANOC's budget for temporary Games-time celebration facilities in Whistler) as a contribution to the capital cost of a permanent community celebration plaza that would be a sustainable and lasting post-Games legacy in Whistler. The \$3 million capital grant would be added to the \$2 million payable to the RMOW pursuant to its venue contract with VANOC, an amount which was payable to the RMOW in the event the new arena was not built. These changes to the venue plan eliminate approximately \$18 million in venue costs which have been incorporated into the budget detail above.

Further Development of the 2010 Sport Program

The IOC has received requests from seven International Winter Sport Federations to add new events and formats to the 2010 program. The IOC Program Commission reviewed the requests in September and will make recommendations to the IOC Executive Board for a final decision in November 2006.

The International Paralympic Committee ("IPC") finalized the 2010 Paralympic sport program at its Executive Board meetings in June 2006. No new events were recommended.

Other Activities

Torino Debrief

In mid-July 2006, VANOC and the IOC hosted an extensive debrief of the 2006 Torino Games. Combined with VANOC's own observations made during the 2006 Games, this session was a major component of the learning and knowledge transfer process from the Torino Olympic and Paralympic Winter Games Organizing Committee. The sessions were attended by VANOC staff, its partners, the IOC's worldwide Olympic sponsors, the Beijing 2008 and London 2012 Organizing Committees and representatives of the candidate cities for the 2014 Olympic and Paralympic Winter Games.

IOC Project Review

On November 8 and 9, representatives from the International Olympic Committee will be in Vancouver to review VANOC's Games planning progress. This is a regularly scheduled project review that occurs in between the full meetings of the IOC Coordination Commission for the 2010 Winter Games. The next full Coordination Commission meeting is scheduled for March 2007.

VANOC Sustainability Report

Information is being gathered for VANOC's first sustainability report to be published in early 2007 under the updated Global Reporting Initiative's Reporting Guidelines. VANOC's report will contain descriptions and stories covering sustainable actions undertaken since the inception of the Organizing Committee through July 31, 2006. To align with our financial reporting cycles, our measurable sustainability indicator data will track selected and available performance data over our last fiscal year, from August 1, 2005 to July 31 2006.

Paralympic Emblem Launch

On September 16, 2006, the Vancouver 2010 Paralympic Games emblem was launched at a celebration in Whistler. The Vancouver 2010 Paralympic emblem joins the 2010 Olympic Winter Games emblem to form the core visual identity for the 2010 Winter Games. Also on September 16, the official ceremony was held with partners to mark the groundbreaking for the Whistler Olympic and Paralympic Village and Athlete Centre.

Brand Protection

VANOC is in discussions with Canadian government officials regarding a request for special legislation to protect the Olympic Brand. We believe the legislation will be introduced and effective in time to permit VANOC to rely on the legislation to protect its marks and to prevent or reduce ambush marketing of its sponsors during the period leading up to the Beijing 2008 Olympic Games through to the end of the 2010 Games.

Management's Responsibility for Financial Reporting

Management is responsible for the integrity and objectivity of the financial information presented in this Annual Report. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The financial information presented elsewhere in this report is consistent with that shown in the accompanying financial statements.

Management is also responsible for developing and maintaining the necessary systems of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded and the financial records form a reliable base for the preparation of accurate and timely financial information.

The Board of Directors is responsible for ensuring management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee of the Board of Directors reviews the financial statements and recommends them to the Board for approval. The independent auditors have full and unrestricted access to the Board of Directors and the Audit Committee and meet periodically with them to discuss audit, financial reporting and related matters.



John A. Furlong
Chief Executive Officer



Rex J. McLennan
Chief Financial Officer

Financial Statements

Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games

July 31, 2006

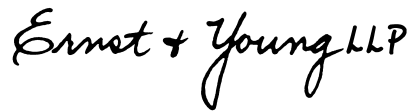
AUDITORS' REPORT

To the Board of Directors of the
Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games

We have audited the statement of financial position of the **Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games** ("VANOC") as at July 31, 2006, the statement of venue development activities and changes in fund balance, and the statement of cash flows for the year then ended. These financial statements are the responsibility of VANOC'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 VANOC as at July 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Canada Corporations Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style script.

Vancouver, Canada,
September 18, 2006.

Chartered Accountants

Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games

STATEMENT OF FINANCIAL POSITION

As at July 31

	2006	2005
	\$	\$
ASSETS AND DEFERRED AMOUNTS		
Cash	2,145	750
Restricted cash <i>[note 4]</i>	20,220,465	18,213,179
Accounts receivable <i>[note 5]</i>	36,165,150	1,970,628
Refundable deposits <i>[note 6]</i>	1,781,870	1,892,543
Deferred operating expenses, net <i>[see accompanying Schedule of Deferred Operating Revenues and Expenses]</i>	40,148,048	22,652,955
Total assets and deferred amounts	98,317,678	44,730,055
LIABILITIES AND FUND BALANCE		
Demand credit facilities <i>[note 7]</i>	48,034,277	26,883,180
Accounts payable and accrued liabilities <i>[notes 8 and 11]</i>	31,666,373	6,406,888
Total liabilities	79,700,650	33,290,068
Commitments, contingencies and guarantees <i>[notes 10 and 12]</i>		
Subsequent events <i>[notes 7, 8 and 13]</i>		
Fund balance		
Venue development fund	18,617,028	11,439,987
Total liabilities and fund balance	98,317,678	44,730,055

See accompanying notes

On behalf of the Board:

Director

Director

Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games

STATEMENT OF VENUE DEVELOPMENT ACTIVITIES
AND CHANGES IN FUND BALANCE

	Year ended July 31, 2006 \$	Year ended July 31, 2005 \$	Cumulative period from September 30, 2003 (incorporation) to July 31, 2006 \$
REVENUES			
Restricted contributions			
Canada	64,010,000	3,700,000	72,110,000
British Columbia	—	30,000,000	81,000,000
Marketing revenues, net [note 10]	554,059	—	554,059
Investment and other income, net	240,105	475,300	851,878
Total revenues	64,804,164	34,175,300	154,515,937
EXPENSES			
Cypress freestyle and snowboarding venue	1,022,127	70,119	1,125,856
Hastings Park skating venue	2,693,586	1,201,514	3,895,100
Hillcrest curling venue	626,287	—	626,287
UBC ice hockey arena	6,870	5,069	72,104
Richmond speed skating oval	2,880,611	30,170,643	33,177,324
Vancouver athletes village	—	—	30,000,000
Whistler alpine	4,546,266	69	4,568,742
Whistler athlete centre	40,904	—	40,904
Whistler conference centre	—	—	3,000,000
Whistler nordic competition venue	22,183,195	5,868,237	28,730,495
Whistler sliding centre	23,622,216	5,250,613	29,222,523
Other	5,061	281,687	1,439,574
Total expenses	57,627,123	42,847,951	135,898,909
Excess (deficiency) of revenues over expenses for the period	7,177,041	(8,672,651)	18,617,028
Venue development fund, beginning of period	11,439,987	20,112,638	—
Venue development fund, end of period	18,617,028	11,439,987	18,617,028

See accompanying notes

Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games

**SCHEDULE OF DEFERRED OPERATING
REVENUES AND EXPENSES**

	Year ended July 31, 2006 \$	Year ended July 31, 2005 \$	Cumulative period from September 30, 2003 (incorporation) to July 31, 2006 \$
DEFERRED REVENUES			
IOC contribution <i>[note 9]</i>	—	6,267,987	6,267,987
Marketing revenues, net <i>[note 10]</i>	31,198,477	(2,201,072)	28,997,405
Investment and other income	1,050,939	199,152	1,292,462
Total deferred revenues	32,249,416	4,266,067	36,557,854
DEFERRED EXPENSES			
Sport, paralympics and venue management	1,339,268	699,048	2,074,790
Revenue, marketing and communications	3,786,536	2,921,617	7,232,233
Human resources and sustainability	23,661,360	10,594,697	37,097,123
Finance and administration and legal <i>[note 12[d]]</i>	12,801,373	4,349,733	19,973,711
Services operations and ceremonies	2,410,586	585,651	3,308,378
Technology and systems	3,614,506	1,051,369	4,785,487
Unrealized foreign exchange loss <i>[notes 6 and 8]</i>	2,130,880	103,300	2,234,180
Total deferred expenses	49,744,509	20,305,415	76,705,902
Excess of deferred expenses over deferred revenues for the period	(17,495,093)	(16,039,348)	(40,148,048)
Deferred operating expenses, net, beginning of period	(22,652,955)	(6,613,607)	—
Deferred operating expenses, net, end of period	(40,148,048)	(22,652,955)	(40,148,048)

See accompanying notes

Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games

STATEMENT OF CASH FLOWS

	Year ended July 31, 2006 \$	Year ended July 31, 2005 \$	Cumulative period from September 30, 2003 (incorporation) to July 31, 2006 \$
VENUE DEVELOPMENT AND OPERATING ACTIVITIES			
Excess (deficiency) of venue development revenues over expenses for the period	7,177,041	(8,672,651)	18,617,028
Changes in operating assets and liabilities:			
Accounts receivable	(34,194,522)	(1,433,608)	(36,165,150)
Refundable deposits	110,673	(528,463)	(1,781,870)
Deferred operating expenses, net	(17,495,093)	(16,039,348)	(40,148,048)
Accounts payable and accrued liabilities	25,259,485	4,955,483	31,666,373
Cash provided by (used in) venue development and operating activities	(19,142,416)	(21,718,587)	(27,811,667)
INVESTING AND FINANCING ACTIVITIES			
Borrowings under the demand facilities	21,151,097	19,682,889	48,034,277
(Increase) decrease in restricted cash	(2,007,286)	2,034,578	(20,220,465)
Cash provided by investing and financing activities	19,143,811	21,717,467	27,813,812
Net increase in cash	1,395	(1,120)	2,145
Cash, beginning of period	750	1,870	—
Cash, end of period	2,145	750	2,145
SUPPLEMENTARY INFORMATION			
Interest paid	1,963,311	586,486	2,670,240

See accompanying notes

Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games**NOTES TO FINANCIAL STATEMENTS**

July 31, 2006

1. ORGANIZATION

On July 2, 2003, the City of Vancouver, British Columbia ("BC"), Canada, was awarded the right to host the Olympic and Paralympic Winter Games of 2010 (the "Games") by the International Olympic Committee ("IOC") based in part upon the efforts of the Vancouver 2010 Bid Corporation (the "Bid Corporation"). The 2010 Olympic Winter Games will be staged in Vancouver and Whistler from February 12 to 28, 2010. Vancouver and Whistler will host the Paralympic Winter Games from March 12 to 21, 2010.

The Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games ("VANOC") was incorporated without share capital under Part II of the Canada Corporations Act on September 30, 2003 and is registered extra-provincially under the BC Society Act. VANOC is exempt from income taxes under the Income Tax Act (Canada).

VANOC is governed by a Board of Directors consisting of 20 members. Of these 20 members, 7 are appointed by the Canadian Olympic Committee ("COC"); 1 by the Canadian Paralympic Committee ("CPC"); 3 by BC; 3 by Canada; 2 by the City of Vancouver ("COV"); 2 by the Resort Municipality of Whistler ("RMOW"); 1 by the Squamish and Lil'wat First Nations acting together; and 1 by the vote of the other 19 members.

The purpose of VANOC is to plan, organize, finance and stage the Games. VANOC, the COC and the COV are party to the Host City Contract with the IOC, which details the responsibilities of the COC, the COV and VANOC in relation to the Games and the distribution of revenues and royalties related to the Games. Under the terms of the Host City Contract, if, after all revenue is received by VANOC and all expenses of VANOC are paid, an operating surplus exists, such surplus shall be divided as follows: 20% to the COC; 20% to the IOC; and 60% to the Amateur Sport Legacy Fund, which is for the general benefit of sport in Canada.

VANOC is also party to a multi-party agreement along with BC, Canada, the COC, the CPC, the COV and the RMOW dated November 14, 2002 ("MPA"). The MPA outlines the responsibilities of each party with respect to the hosting of the Games. In accordance with the MPA, BC and Canada have committed to each contribute \$290,000,000 in funding contributions to VANOC for a total of \$580,000,000 that is restricted for venue and support facilities development [see note 13].

BC has provided a guarantee to the IOC of a potential financial shortfall of VANOC.

Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games**NOTES TO FINANCIAL STATEMENTS**

July 31, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of accounting

The financial statements are prepared in accordance with the principles of fund accounting.

Venue development fund

VANOC is responsible for ensuring that the Olympic and Paralympic venues ("Games Venues") are available and meet specified standards for use during the Games. VANOC has entered into various agreements regarding the development and use of the required Games Venues. VANOC will not be responsible for and will have no ownership interest in these Games Venues after the Games.

The Venue Development Fund is used to record the receipt and use of resources that are designated for the development of the Games Venues. Restricted contributions related to venue development activities are recognized as revenue of the Venue Development Fund in the period received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured. Investment income earned on assets held in the Venue Development Fund is recorded as revenue of this fund as earned. All expenditures relating to venue development are expensed as incurred.

Operating fund

All revenues and expenses of VANOC not related to venue development activities are recorded in the Operating Fund. Due to the extended business cycle of hosting the Games, operating revenues and expenses recorded in the Operating Fund are deferred until the commencement of the Games. These deferred amounts will be recognized in the year ended July 31, 2010.

Marketing revenues

Marketing revenues are comprised of sponsorship revenues and licensed merchandise revenues. Marketing revenues to be received in cash are recognized in the period received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured. Value in kind ("VIK") revenues are recorded at the equivalent amount of VIK goods and services as they are acquired.

Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games**NOTES TO FINANCIAL STATEMENTS**

July 31, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Value in kind goods and services**

VIK goods and services are recognized only when a fair value can be reasonably estimated and when the goods and services are used in the normal course of operations and would otherwise have been purchased.

Volunteers contribute an undeterminable number of hours. Because of the difficulty in determining their fair value, volunteer services are not recognized in the financial statements.

Derivative financial instruments

Derivative financial instruments such as forward foreign exchange contracts are utilized by VANOC in the management of its foreign currency exposures. VANOC does not enter into derivative transactions for speculative or trading purposes. In accordance with CICA Emerging Issues Committee Abstract 128 – “Accounting for Trading, Speculative, or Non-Hedging Derivative Financial Instruments” (“EIC 128”), derivative financial instruments that do not qualify for hedge accounting are measured at fair value and recorded on the statement of financial position, with changes in fair value recognized each period in the schedule of deferred operating revenues and expenses.

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 amounts reported in the financial statements and accompanying notes. Management believes that the estimates utilized in preparing its financial statements are reasonable; however, actual results could differ from those estimates.

3. FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISK

VANOC's financial instruments consist of cash, restricted cash, accounts receivable, refundable deposits, an operating and a capital demand credit facility, accounts payable and forward foreign exchange contracts. Unless otherwise noted, it is management's opinion that VANOC is not exposed to significant interest or credit risks arising from these financial instruments. The fair values of the financial instruments approximate their carrying value.

Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games
NOTES TO FINANCIAL STATEMENTS

July 31, 2006

4. RESTRICTED CASH

Included in restricted cash are contributions designated for the Games Venues and other amounts related to restricted lien holdbacks under venue construction contracts.

5. ACCOUNTS RECEIVABLE

Included in accounts receivable at July 31, 2006 is \$33,572,000 [July 31, 2005 - \$185,000] in receivables from Canada related to its restricted contribution for venue development, of which \$3,229,000 [July 31, 2005 - \$185,000] consists of holdback receivables.

6. REFUNDABLE DEPOSITS

Pursuant to the Host City Contract, VANOC was required to pay the IOC US\$1,000,000 as a refundable deposit. The deposit earns interest at the rate of return generated by the IOC. As at July 31, 2006, the carrying value of the IOC deposit is \$1,271,667 [July 31, 2005 - \$1,301,200] which includes interest earned for the year of \$64,767 [July 31, 2005 - \$75,300] offset by an unrealized foreign exchange loss of \$94,300 [July 31, 2005 - \$103,300].

On March 30, 2005, VANOC made a payment to the CPC in the amount of \$500,000 as an advance towards marketing rights to be acquired from the CPC. This amount will be applied against any future agreement entered into between VANOC and the CPC.

7. DEMAND CREDIT FACILITIES

VANOC (as the “borrower”) has entered into an Operating Credit Facility Agreement (the “Operating Credit Facility”) with a bank to provide working capital and funds for general operating requirements. The Operating Credit Facility is a \$45,000,000 revolving demand facility by way of prime rate loans, U.S. dollar base-rate loans, bankers’ acceptances, Libor-based loans, letters of credit and letters of guarantee. Subsequent to the year ended July 31, 2006, the limit on the Operating Credit Facility was increased from \$45,000,000 to \$65,000,000 until October 10, 2006, pending finalization of new credit facilities to support anticipated working capital requirements.

In addition, VANOC has entered into a Capital Credit Facility (the “Capital Credit Facility”) with the same bank, effective June 27, 2005 to provide working capital and funds for venue development activities. The Capital Credit Facility is a \$5,000,000 revolving demand facility by way of prime rate loans, U.S. dollar base-rate loans, bankers’ acceptances, Libor-based loans, letters of credit and letters of guarantee.

Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games

NOTES TO FINANCIAL STATEMENTS

July 31, 2006

7. DEMAND CREDIT FACILITIES (cont'd)

As of July 31, 2006, a total of \$42,892,666 [July 31, 2005 - \$24,074,657] is drawn against the Operating Credit Facility, represented by prime rate loans of \$42,892,666 [July 31, 2005 - \$3,112,172] at a rate of 10 basis points per annum below the bank's prime rate. At July 31, 2005, VANOC had a one month bankers' acceptance of \$20,962,485.

As of July 31, 2006, a total of \$5,141,611 [July 31, 2005 - \$2,808,523] is drawn against the Capital Credit Facility, represented by prime rate loans at a rate of 10 basis points per annum below the bank's prime rate.

The prime rate at July 31, 2006 was 6.00% [July 31, 2005 - 4.25%]. The effective yield on the bankers' acceptance in place at July 31, 2005 was 4.11%.

All borrowings under the facilities are collateralized by a general security agreement constituting a first ranking security interest in all personal property of VANOC.

8. DERIVATIVE FINANCIAL INSTRUMENTS

During the year ended July 31, 2006, VANOC entered into forward foreign exchange contracts to manage its exposure to foreign currency exchange rate movements on expected future cash flows. The instruments used are zero premium forward option contracts. There is no net premium paid or received for these currency options.

The following is a summary of the outstanding forward contracts as of July 31, 2006:

Maturity Date	Notional Amount \$	Weighted average forward exchange rates		
		Lower boundary	Upper boundary	Knock-in trigger
USD:				
March 30, 2007	63,000,000	1.0989	1.1390	1.1982
March 31, 2008	600,000	1.1056	1.1448	1.2191
March 31, 2009	176,400,000	1.0830	1.1235	1.2098
	240,000,000	1.0872	1.1276	1.2068
EUR:				
March 30, 2007	10,000,000	1.3921	1.4318	1.4965
March 31, 2008	12,000,000	1.4022	1.4395	1.5158
March 31, 2009	28,000,000	1.4113	1.4450	1.5288
	50,000,000	1.4053	1.4410	1.5192

Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games**NOTES TO FINANCIAL STATEMENTS**

July 31, 2006

8. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

These forward option contracts establish a lower boundary to ensure a certain minimum future exchange rate while establishing a range between the upper boundary and the knock-in trigger rate through which VANOC may beneficially participate in the depreciation of the Canadian dollar relative to the foreign currencies. These ranges are indicated above.

If at any time during the contract period the spot exchange rate is greater than or equal to the knock-in trigger rate, then the exchange rates on settlement will be within the lower and upper boundaries. If the spot exchange rate does not trade at a level that is greater than or equal to the knock-in trigger rate during the contract period, then the exchange rates on settlement will be within the lower boundary and the knock-in trigger rate.

As of July 31, 2006, the fair value of these forward contracts is a liability of \$2,037,402, which has been recorded in accounts payable and accrued liabilities on the statement of financial position, and as an unrealized foreign exchange loss on the schedule of deferred operating revenues and expenses.

Subsequent to year end, VANOC received US\$17,000,000 in advance of the anticipated receipt date of March 31, 2007. Concurrent with this receipt, VANOC settled its corresponding outstanding forward contract position for these cash flows resulting in a realized gain of approximately \$23,000.

9. IOC CONTRIBUTION

Pursuant to the Host City Contract, as consideration for VANOC's role in planning and staging the Games, the IOC will provide to VANOC a share of the revenues from broadcasting agreements. During the year ended July 31, 2005, VANOC received an advance payment of US\$5,000,000 (CDN\$6,267,987) from the IOC in respect of these broadcasting revenues. No amounts were received from the IOC during the year ended July 31, 2006. VANOC's final share of these revenues is currently under negotiation.

10. MARKETING REVENUES

As of July 31, 2006, VANOC has entered into binding term sheets for sponsorship and licensing with various Tier 1, 2 and 3 sponsors in the banking, telecommunications, home improvement, vehicles, lotteries, coins, furniture, water utility, oil and gas, and general merchandise store categories. The latter two are governed by definitive sponsorship agreements and it is expected that VANOC will execute the definitive sponsorship agreements for the remaining categories during the year ending July 31, 2007.

Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games

NOTES TO FINANCIAL STATEMENTS

July 31, 2006

10. MARKETING REVENUES (cont'd)

The marketing revenues recorded during the years ended July 31, 2006 and 2005 are as follows:

	Deferred operating expenses, net \$	2006 Venue development fund \$	Total \$
Cash sponsorship revenues	38,000,000	—	38,000,000
VIK sponsorship revenues	6,454,909	667,538	7,122,447
Licensed merchandise	3,382,979	—	3,382,979
IOC marketing royalties	(4,219,513)	(33,377)	(4,252,890)
COC marketing royalties	(12,419,898)	(80,102)	(12,500,000)
Marketing revenues, net	31,198,477	554,059	31,752,536

	Deferred operating expenses, net \$	2005 Venue development fund \$	Total \$
Cash sponsorship revenues	—	—	—
VIK sponsorship revenues	1,345,006	—	1,345,006
Licensed merchandise	21,250	—	21,250
IOC marketing royalties	(67,328)	—	(67,328)
COC marketing royalties	(3,500,000)	—	(3,500,000)
Marketing revenues, net	(2,201,072)	—	(2,201,072)

[a] Pursuant to the terms of the Host City Contract, VANOC is required to pay the IOC a 7.5% royalty on the value of any cash consideration received and a 5% royalty on any VIK contributions received pertaining to any element of commercial exploitation of VANOC's marketing rights. VANOC has recorded royalties to the IOC in the amount of \$4,252,890 in respect of cash and VIK acquired during the year ended July 31, 2006 [July 31, 2005 - \$67,328].

Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games

NOTES TO FINANCIAL STATEMENTS

July 31, 2006

10. MARKETING REVENUES (cont'd)

[b] Pursuant to the joint marketing programme agreement between the COC and VANOC, VANOC shall pay to the COC a 16% royalty on the value of any cash consideration and a 12% royalty on any VIK contributions received pertaining to any commercial exploitation of VANOC's marketing rights. The royalties payable are subject to a minimum payment of \$73,500,000 to a maximum payment of \$110,000,000. For the year ended July 31, 2006, VANOC paid \$12,500,000 [July 31, 2005 - \$3,500,000] of the minimum amount with the remaining minimum balance to be paid as follows:

	\$
April 30, 2007	11,000,000
April 30, 2008	14,000,000
April 30, 2009	12,000,000
April 30, 2010	7,500,000
April 30, 2011	7,000,000
April 30, 2012	6,000,000
	57,500,000

11. RELATED PARTY TRANSACTIONS

The following table summarizes VANOC's related party transactions and the amounts owing to these related parties as at and for the years ended July 31, 2006 and 2005:

	July 31, 2006	July 31, 2005	Due to (from) related parties July 31, 2006	Due to (from) related parties July 31, 2005
	\$	\$	\$	\$
Deferred revenues:				
Bid Corporation [note 11[b]]	460,000	—	—	—
Deferred expenses:				
BC [note 11[a]]	97,519	81,094	86,180	28,018
Bid Corporation [note 11[b]]	—	28,641	—	—
COC [note 11[c]]	12,567,984	3,617,087	(17,499)	6,166
COV [note 11[d]]	1,346,789	44,719	51,927	44,719
IOC [note 11[e]]	4,849,200	215,651	2,254,284	88,542
RMOW [note 11[a]]	263,897	116,919	67,984	45,894

Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games**NOTES TO FINANCIAL STATEMENTS**

July 31, 2006

11. RELATED PARTY TRANSACTIONS (cont'd)

- [a] VANOC has certain consultants and contractors on secondment from BC and the RMOW. For the year ended July 31, 2006, \$97,519 [July 31, 2005 - \$81,094] was charged by BC and \$163,887 [July, 31 2005 - \$116,919] was charged by the RMOW for these services. In addition, for the year ended July 31, 2006, the RMOW charged \$100,010 for permit services and related travel and Board expenses.
- [b] For the year ended July 31, 2006, deferred operating revenues include \$460,000 which represents the surplus transferred from Bid Corporation. For the year ended July 31, 2005, VANOC had a month-to-month agreement with Bid Corporation to provide day-to-day management services to VANOC. Bid Corporation charged VANOC \$28,641 for these services.
- [c] The COC charged \$12,500,000 [July 31, 2005 - \$3,500,000] related to marketing royalties [see note 10] and \$67,984 [July 31, 2005 - \$117,087] related to travel and Board related expenses and other charges in connection with joint initiatives.
- [d] VANOC has a lease agreement with the COV for its new office space. For the year ended July 31, 2006, \$1,273,064 was charged by the COV related to office rent and operating expenses and \$73,725 related to other permit charges. For the year ended July 31, 2005, VANOC was charged \$44,719 for certain consultants and contractors on secondment from the COV.
- [e] For the year ended July 31, 2006, the IOC charged \$4,252,890 [July 31, 2005 - \$67,328] related to marketing royalties [see note 10] and \$596,310 [July 31, 2005 - \$148,323] related to travel expenses and international trademark registrations and other charges in connection with joint initiatives.

The above amounts exclude contributions made by Canada and BC [see Statement of Venue Development Activities and Changes in Fund Balance]. Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The amounts payable to related parties are included in accounts payable and accrued liabilities and are due on demand.

12. COMMITMENTS, CONTINGENCIES AND GUARANTEES

- [a] VANOC is obligated to pay US\$4,000,000 to the International Paralympic Committee ("IPC") in exchange for all rights with respect to the broadcasting, marketing programs and ticket sales related to the Paralympic Winter Games. This amount is payable in equal instalments of US\$1,000,000 on January 15 of 2007, 2008, 2009 and 2010.

Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games

NOTES TO FINANCIAL STATEMENTS

July 31, 2006

12. COMMITMENTS, CONTINGENCIES AND GUARANTEES (cont'd)

- [b] VANOC has entered into various contracts for goods and services related to the planning and staging of the Games and for the development or use of facilities such as venue sites during the Games. As of July 31, 2006, VANOC has outstanding commitments of approximately \$168,000,000 [July 31, 2005 - \$21,000,000] with respect to these contracts. These commitments will be disbursed at various times through 2010.
- [c] Pursuant to venue agreements between VANOC and Cypress Bowl Recreations Limited Partnership and VANOC and Whistler Mountain Resort Limited Partnership and Blackcomb Skiing Enterprises Limited Partnership, VANOC has entered into make-whole agreements with these parties for any shortfall in their expected earnings in relation to their venue operations as a result of certain events being held at the respective venue sites for the purposes of hosting the Games. The calculation of the potential required payments has not yet been determined by the parties and any amounts owing cannot yet be reasonably determined.
- [d] Rental expense on operating leases for the year ended July 31, 2006 totalled approximately \$1,781,000 [July 31, 2005 - approximately \$452,000]. Approximate future minimum annual obligations under these leases as at July 31, 2006 are as follows:

	\$
2007	2,608,000
2008	3,387,000
2009	3,370,000
2010	2,808,000
2011	—
	12,173,000

- [e] The statute governing VANOC and VANOC's bylaws set forth VANOC's obligation to indemnify its directors, officers, and other defined persons for certain costs and expenses incurred in connection with the defense of claims asserted against them. VANOC has purchased insurance to help fund such obligations, if any.
- [f] VANOC is from time to time involved in claims and litigation arising in the normal course of business with its suppliers / contractors for the reimbursement of costs of additional work and / or for additional costs because of changed conditions. Any settlements, payments, or necessary accruals are reflected in the financial statements when the outcome is determinable and the amount is reasonably estimable.

Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games**NOTES TO FINANCIAL STATEMENTS**

July 31, 2006

13. VENUE DEVELOPMENT FUNDING

As set out in the MPA, Canada and BC committed to each contribute \$235,000,000 for a total of \$470,000,000 towards the funding of the Games Venues. This commitment was based on the original estimate for construction costs prepared by Bid Corporation in its 2002 submission to the IOC and was based in 2002 dollars according to IOC requirements and bid rules. To address the impact of inflation and other factors, VANOC asked that Canada and BC each fund an additional \$55,000,000 towards the revised venue costs. The additional funding request was approved by BC and Canada on August 30, 2006 subject to certain agreed upon initiatives to be undertaken by VANOC.

14. COMPARATIVE FIGURES

Certain of the prior period amounts have been reclassified to conform to the current year's presentation.