F I N A N C I A L S T A T E M E N T S

For

LAKESHORE ARENA CORPORATION

For year ended

DECEMBER 31, 2020

Management's Responsibility for the Financial Statements

The financial statements of the Lakeshore Arena Corporation (the "Corporation") are the responsibility of management and have been approved by the Board.

The financial statements have been prepared in compliance with the Canadian public sector accounting standards established by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada. A summary of the significant accounting policies are described in Note 3 to the financial statements.

The preparation of the financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The Corporation's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the financial statements. These systems are monitored and evaluated by management.

The Board is responsible for ensuring that management fulfills its responsibilities for financial reporting. The Board reviews the Corporation's financial statements and discusses any significant financial reporting or internal control matters prior to the approval of the financial statements.

The financial statements have been audited by Welch LLP, independent external auditors appointed by the Board, in accordance with Canadian generally accepted auditing standards. The accompanying Independent Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the Corporation's financial statements.

.... Chairperson

.... Treasurer

Welch LLP - Chartered Professional Accountants
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An Independent Member of BKR International

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of

LAKESHORE ARENA CORPORATION

Opinion

We have audited the accompanying financial statements of Lakeshore Arena Corporation, which comprise the statement of financial position as at December 31, 2020 and the statements of operations, changes in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the statement of financial position of Lakeshore Arena Corporation as at December 31, 2020 and the results of its operations, changes in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of Lakeshore Arena Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that as of December 31, 2020, Lakeshore Arena Corporation had a net debt of $30,547,830 and, for the year then ended, Lakeshore Arena Corporation incurred an operating deficit of $1,256,975 and had negative operating cash flows of $470,442. These events and conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast some doubt on Lakeshore Arena Corporation's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing Lakeshore Arena Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Lakeshore Arena Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Lakeshore Arena Corporation's financial reporting process.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Lakeshore Arena Corporation's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Lakeshore Arena Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Lakeshore Arena Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Welch LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
May 13, 2021.

LAKESHORE ARENA CORPORATION

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2020

	2020	2019
FINANCIAL ASSETS		
Cash	$ 129,129	$ 502,125
Accounts receivable	99,796	113,566
Accrued revenue	79,034	75,434
	307,959	691,125
LIABILITIES		
Accounts payable and accrued liabilities	374,434	302,531
HST payable	236	32,220
Line of credit (note 5)	1,000,000	-
Deferred revenue	75,157	105,554
Loans payable (note 7)	28,684,931	29,537,804
Due to City of Toronto (note 10)	529,113	711,448
Obligations under capital lease (note 8)	191,918	238,272
	30,855,789	30,927,829
NET DEBT	(30,547,830)	(30,236,704)
NON-FINANCIAL ASSETS		
Tangible capital assets (note 4)	32,040,053	32,971,949
Inventory	-	13,953
Prepaid expense	8,375	8,375
	32,048,428	32,994,277
ACCUMULATED SURPLUS (note 10)	$ 1,500,598	$ 2,757,573

Approved on behalf of the Board:

.... Director

Andrew J. Flynn
.... Director

(See accompanying notes)

LAKESHORE ARENA CORPORATION

STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 2020

	Budget 2020 (unaudited)	2020	2019
Revenue			
Ice rentals	$ 3,615,000	$ 1,626,371	$ 3,681,578
Tenancy rentals	1,240,844	915,028	1,108,640
Emergency funding (note 11)	-	400,000	-
Utility recovery	197,586	176,375	194,646
Licensing	197,550	157,553	271,086
Government assistance (note 11)	-	113,428	-
Snack bar, net (Schedule A)	41,782	(34,807)	19,861
Other	30,004	13,705	36,814
	5,322,766	3,367,653	5,312,625
Expenses			
Utilities	1,117,238	1,066,854	1,130,614
Salaries and benefits	1,083,457	808,016	1,051,250
Interest (notes 5, 6 and 8)	965,263	990,108	1,020,321
Amortization of tangible capital assets	913,934	931,896	954,804
Building and equipment maintenance	707,887	646,802	803,766
Insurance (note 6)	58,000	61,690	55,519
Office and cleaning	209,237	45,810	37,752
Bank and credit card charges	62,278	24,054	61,492
Legal and audit	33,000	17,577	36,693
Telephone	16,404	15,508	15,398
Amortization of loan transaction cost	-	3,327	3,328
Bad debts	6,000	2,647	199
Marketing and promotions	13,200	2,039	24,392
Other	12,000	8,300	13,677
	5,197,898	4,624,628	5,209,205
Operating surplus (deficit)	$ 124,868	(1,256,975)	103,420
Accumulated surplus, beginning of year		2,757,573	2,818,007
Draw from City of Toronto capital reserve fund (note 10)		-	365,259
Distribution to City of Toronto (note 10)		-	(529,113)
Accumulated surplus, end of year		$ 1,500,598	$ 2,757,573

(See accompanying notes)

LAKESHORE ARENA CORPORATION

STATEMENT OF CHANGES IN NET DEBT

YEAR ENDED DECEMBER 31, 2020

	2020	2019
Operating surplus (deficit)	$ (1,256,975)	$ 103,420
Amortization of tangible capital assets	931,896	954,804
Utilization of inventories	13,953	1,100
Acquisition of tangible capital assets	-	(503,904)
Change in prepaid expenses	-	(8,375)
Distribution to City of Toronto (note 10)	-	(163,854)
Changes in net debt	(311,126)	391,566
Net debt, beginning of year	(30,236,704)	(30,619,895)
Net debt, end of year	$ (30,547,830)	$ (30,236,704)

(See accompanying notes)

LAKESHORE ARENA CORPORATION

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2020

	2020	2019
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Operating surplus (deficit)	$ (1,256,975)	$ 103,420
Items not affecting cash:		
Amortization of tangible capital assets	931,896	954,804
Amortization of loan transaction costs	3,327	3,328
	(321,752)	1,061,552
Non-cash changes to operations		
Accounts receivable	13,770	190,472
Accrued revenue	(3,600)	(75,434)
Prepaid expense	-	(8,375)
Accounts payable and accrued liabilities	71,903	(55,408)
HST payable	(31,984)	(7,818)
Deferred revenue	(30,397)	25,558
Inventory	13,953	1,100
Due to City of Toronto	(182,335)	163,854
	(470,442)	1,295,501
INVESTING ACTIVITIES		
Purchase of tangible capital assets	-	(235,493)
FINANCING ACTIVITIES		
Principal repayments of loans payable	(969,629)	(745,031)
Proceeds from loans payable	113,429	-
Distribution to City of Toronto	-	(163,854)
Increase in line of credit	1,000,000	-
Repayments of obligation under capital lease	(46,354)	(30,139)
	97,446	(939,024)
INCREASE (DECREASE) IN CASH	(372,996)	120,984
CASH, BEGINNING OF YEAR	502,125	381,141
CASH, END OF YEAR	$ 129,129	$ 502,125

Non-cash transactions:		
Tangible capital assets purchased under capital leases	$ -	$ (268,411)
Capital leases obtained	$ -	$ 268,411

(See accompanying notes)

1. NATURE OF OPERATIONS

Lakeshore Arena Corporation (the “Corporation") was incorporated under the Ontario Business Corporations Act on July 19, 2011 to acquire the assets and assume certain liabilities of Lakeshore Lions Arena Incorporated and to continue to operate the arena as a community recreation centre under the Community Recreation Centre Act, pursuant to Chapter 25 of the City of Toronto Municipal Code, By-Law No. 21259, as amended. The Committee of Management operates and manages the arena facilities on behalf of the City of Toronto (the “City").

2. GOING CONCERN

These financial statements have been prepared on the assumption that the Corporation will continue as a going concern, meaning it will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

As at December 31, 2020, the Corporation had a net debt of $30,547,830 and, for the year then ended, the Corporation incurred an operating deficit of $1,256,975 and had negative operating cash flows of $470,442. As discussed in note 7, the Corporation was not in compliance with certain financial and non-financial covenants of its debt obligations, and did not meet its debt obligation subsequent to year end.

Whether the Corporation will have the ability to meet its debt obligations is uncertain due to the uncertainty of impacts from COVID-19 and these uncertainties cast some doubt about the Corporation’s ability to continue as a going concern. The Corporation’s ability to continue as a going concern is dependent on the continued cash-flow support from the City of Toronto in order to meet its debt obligations and working capital needs until such time as the resumption to normal operations is permitted based on local health guidance.

If the going concern assumption were not appropriate for these financial statements, adjustments might be necessary to the carrying values of assets and liabilities and the classifications in the statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

These financial statements have been prepared in accordance with Canadian public sector accounting standards as issued by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada.

Revenue recognition

Ice rental revenues are recognized on the event date. Tenancy rental and licensing revenues are recognized on a pro-rata basis over the term of the respective agreements. Utilities recovery is recognized on a monthly basis based on usage. Snack bar sales are recognized at the time of sale. Ice rental fees paid in advance are recorded as deferred revenues.

3. **SIGNIFICANT ACCOUNTING POLICIES** - Cont'd.

Inventories

Inventories held for resale are initially recorded at cost and subsequently measured at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Tangible capital assets

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

Building	46 years
Computer equipment	5 years
Furniture and fixtures	10 years
Zamboni	5 years

Tangible capital assets are tested for impairment whenever events or changes in circumstances indicate that the reduction in future economic benefits is expected to be permanent. If any potential impairment is identified, then the amount of the impairment is quantified by comparing the carrying value of the tangible capital assets to its fair value. Any impairment is charged to income in the period in which the impairment is determined.

Financial instruments

The Corporation initially measures its financial assets and financial liabilities at fair value. The Corporation subsequently measures its financial assets and financial liabilities at amortized cost. Financial assets measured at amortized cost include cash and accounts receivable. Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, capital lease and line of credit. Loans payable are initially measured at fair value, net of transaction costs. It is subsequently measured at amortized cost. Transaction costs are amortized on a straight-line basis.

Contributed services

Services provided without charge by the City and others are not recorded in these financial statements.

Use of estimates

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management makes accounting estimates when determining the useful life of its tangible capital assets, accrued liabilities and the related costs charged to the statement of operations. Actual results could differ from those estimates, the impact of which would be recorded in future periods.

4. TANGIBLE CAPITAL ASSETS

	2020			2019
	Cost	Accumulated amortization	Net book value	Net book value
Building	$ 39,726,934	$ 7,949,345	$ 31,777,589	$ 32,642,624
Computer equipment	65,825	50,215	15,610	20,652
Furniture and fixtures	610,837	551,871	58,966	67,103
Zamboni	364,159	176,271	187,888	241,570
	$ 40,767,755	$ 8,727,702	$ 32,040,053	$ 32,971,949

Included in Zamboni is equipment under capital lease of $268,411 (2019 - $268,411) with related accumulated amortization of $80,523 (2019 - $26,841).

5. LINE OF CREDIT

The Corporation has available a line of credit with the City of Toronto for up to $1,000,000 at 3% per annum, to cover periodic operating cash flow shortfalls. The line of credit is unsecured and there are no specific terms for repayment. As at December 31, 2020, the Corporation has drawn $1,000,000 (2019 - $nil) on this facility.

6. RELATED PARTY TRANSACTIONS

Insurance

The City of Toronto provides for facility insurance for the Corporation. The Corporation paid $61,690 (2019 - $55,519) to the City for the current year premiums.

Interest

The Corporation incurred interest of $102,230 (2019 - $121,335) on outstanding debt to the City of Toronto and the amount is recorded in interest, of which $40,892 (2019 - $nil) is outstanding and included in accounts payable and accrued liabilities.

Leased Land

The Corporation has signed a sub lease agreement with the City of Toronto at no cost for the first 35 years and then 50% of the operating surplus for the balance of the term to October 27, 2057, for the land on which the arena facilities are located. In turn, the City has leased the land from The Toronto District School Board and the Corporation is required to provide 500 hours of no cost non-prime time ice time, to the Toronto District School Board, from October 1st to September 30th, each lease year.

7. LOANS PAYABLE

	2020	2019
(a) Infrastructure Ontario	$ 24,559,047	$ 25,297,718
(b) City of Toronto - General	4,047,660	4,047,660
(c) City of Toronto - Sustainable Energy Plan	50,883	68,412
(d) City of Toronto - Toronto Energy Conservation Fund	100,000	200,000
	28,757,590	29,613,790
Less unamortized transaction costs	(72,659)	(75,986)
	$ 28,684,931	$ 29,537,804

Principal repayments are due as follows:

	City of Toronto	Infrastructure Ontario
2021	$ 4,181,864	$ 24,559,047
2022	16,679	-
	$ 4,198,543	$ 24,559,047

(a) In April 2017, the Corporation obtained two credit facilities from Ontario Infrastructure and Lands Corporation ("Infrastructure Ontario"). The maximum aggregate principal amount which maybe outstanding at anytime cannot exceed $30,860,435. The credit facilities bearing interest at 3.48% and are repayable in equal monthly blended installments of $133,944 which commenced on November 30, 2017 and matures on October 31, 2042. The credit facilities are secured by a mortgage over the property, a general security agreement, and assignment of rents and leases. The City of Toronto has provided a guarantee of the principal amount. The credit facilities contain a number of restrictive covenants that requires the Corporation to be in compliance with a financial ratio and non-financial criteria. As at December 31, 2020, the Corporation was not in compliance with the debt service coverage ratio requirement and continues not be in compliance with this requirement subsequent to year end. In addition, subsequent to year end, the Corporation did not remit any monthly installments to Infrastructure Ontario, and the Corporation did not meet certain reporting requirements. The Corporation is in discussion with the City of Toronto and Infrastructure Ontario to rectify the non-compliance, consequently, the principal repayments of the loan are presented as due on demand.

(b) The City of Toronto general loan is unsecured and bears interest at 3.0% compounded semi-annually with interest only payments due. The loan was renewed in 2020 and matures on October 31, 2021.

(c) In May 2019, the Corporation obtained a loan from the City of Toronto for the implementation of energy efficient projects in the amount of $68,412, bearing interest at 2.2%. The loan is repayable commencing July 1, 2020 over quarterly principal payments of $8,764 plus interest maturing on July 1, 2022.

(d) In January 2012, the Corporation obtained a loan from the City of Toronto under the Toronto Energy Conservation Fund in the amount of $1,000,000. The loan is repayable in equal quarterly installments of $25,000 commencing January 1, 2012. The loan is interest-free until October 1, 2021, at which time any outstanding balance will accrue interest at RBC's prime rate on a daily basis.

8. CAPITAL LEASE OBLIGATIONS

The Corporation has financed two Zambonis by entering into capital leasing arrangements. Capital lease repayments are due as follows:

2021	$ 52,867
2022	52,867
2023	52,867
2024	44,848
	203,449
Less amount representing deemed interest at 3%	11,531
Present value of net minimum capital lease payments	$ 191,918

Interest of $6,514 (2019 - $5,105) relating to capital lease obligations has been included in interest expense.

9. FINANCIAL INSTRUMENTS

Transactions in financial instruments may result in an entity assuming or transferring to another party one or more of the financial risks described below. The following disclosures provide information to assist users of the financial statements in assessing the extent of risk related to the Corporation's financial instruments:

Credit risk

The Corporation is exposed to credit risk resulting from the possibility that parties may default on their financial obligations. The Corporation’s maximum exposure to credit risk represents the sum of the carrying value of its cash and accounts receivable. The Corporation’s cash is with a Canadian chartered bank and as a result management believes the risk of loss on this item to be remote.

Management believes that the Corporation’s credit risk with respect to accounts receivable is limited. The Corporation manages its credit risk by reviewing accounts receivable aging and following up on outstanding amounts.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation's line of credit and long-term debt bear interest at fixed interest rates, consequently, the Corporation's exposure to interest rate risk is negligible.

Liquidity risk

Liquidity risk refers to the adverse consequence that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities, which are comprised of accounts payable and accrued liabilities and loans payable.

The Corporation manages liquidity risk by monitoring its cash flow requirements on a regular basis. As at December 31, 2020, the Corporation is experiencing a significant cash shortage given the closure of the arena due to COVID-19. The Corporation expects to continue to receive cash-flow support from the City of Toronto to meet its obligations.

Changes in risk

Except for liquidity risk noted above, there have been no other significant changes in the Corporation's risk exposures from the prior year.

10. ACCUMULATED SURPLUS

The accumulated surplus is made up as follows:

	2020	2019
Accumulated surplus, beginning of year	$ 2,757,573	$ 2,818,007
Draw from capital reserve fund	-	365,259
Distribution to City of Toronto	-	(529,113)
Current year operating surplus (deficit)	(1,256,975)	103,420
Accumulated surplus, end of year	$ 1,500,598	$ 2,757,573

In January 2016, the City of Toronto wrote-off $8,100,000 of the loan receivable from the Corporation and converted it as a capital contribution to the Corporation. As part of the transaction, the Corporation agreed to make an annual distribution to the City equal to 50% of net operating income before amortization of tangible capital assets. The annual distribution would continue until the full $8,100,000 of the capital contribution has been returned. The Corporation is able to draw from the distributions made to the City for capital repair projects upon approval by the City of Toronto. As at December 31, 2020, a total of $1,167,509 (2019 - $1,167,509) had been recorded as distributions to date, of which $529,113 (2019 - $711,448) is outstanding and included in due to City of Toronto. The balance outstanding is non-interest bearing with no fixed repayment terms.

11. UNCERTAINTY DUE TO THE ECONOMIC CONSEQUENCES OF THE CORONAVIRUS DISEASE (COVID-19) OUTBREAK

In mid-March of 2020, various Canadian governments declared a state of emergency in response to public health concerns over the spread of the coronavirus disease. The arena was closed to the public for the majority of the year in response to the quarantine measures implemented by the provincial government to stop the spread of the virus.

The Government of Canada announced that they would be providing emergency funding to various businesses in response to COVID-19 impacts. For the year ended December 31, 2020, the Corporation received a total of $113,428 from the Federal Government's Canadian Emergency Commercial Rent Assistance (CECRA) program. In addition, the Corporation received $400,000 from the City of Toronto as emergency funding to support cash shortfall due to the closure.

A high degree of uncertainty continues to persist surrounding the full economic impact of the situation. The unpredictable nature of the spread of the disease makes it difficult to determine the length of time that the Corporation's operations will be impacted or the severity of the impact. Consequently, the effects any subsequent outbreaks or abrupt declines in economic activity therefrom will have on the Corporation's future operations, assets, liabilities, revenues and expenses are unknown at this time.

12. COMPARATIVE FIGURES

Comparative figures have been reclassified where necessary to conform to the presentation adopted in the current year.

LAKESHORE ARENA CORPORATION

YEAR ENDED DECEMBER 31, 2020

SNACK BAR OPERATIONS

	2020	2019
Sales		
Snack bar	$ 90,953	$ 410,752
Catering income	4,825	37,331
	95,778	448,083
Expenses		
Cost of goods sold	60,405	198,747
Direct wages	70,180	229,475
	130,585	428,222
Gross profit (loss)	$ (34,807)	$ 19,861