

LAKE SHORE ARENA CORPORATION



ANNUAL REPORT 2011

MESSAGE FROM THE BOARD

On behalf of the Lakeshore Arena Corporation, we are excited to share this abbreviated annual report for 2011. It is pursuant to the requirements of the Unanimous Shareholder Declaration and provides key achievements in its first 4 months of operation, future plans and audited financial statements.

Lakeshore Arena Corporation was incorporated on July 19, 2011 and assumed control of operations at the facility on September 8, 2011, the closing date of the sale pursuant to the Toronto City Council decision on July 15, 2011. In order to protect City's financial interest in the loan guarantee provided to the MasterCard Centre, an Arena built and operated by the Lakeshore Lions Club, Toronto City Council approved the incorporation of a City services corporation to assume the leasehold interest, ownership of the asset and project construction debt of the former operator, and to operate and manage the MasterCard Centre Arena. The transition, which required the support of all stakeholders and the hard work of many City staff, was smooth.

In the first four months of operation, Lakeshore Arena Corporation operated with a Board of three city appointees and has filled the remaining vacancies in the Board, stabilized the operation and improved the operating results of the Arena. We are looking at future options for the long term sustainability of the Arena will be presenting them to City Council at the end of 2012.

The Board of Directors would like to thank the shareholder for its ongoing support both during and after transition and look forward to continuing to deliver exceptional quality and value to the community.

Ann Ulusoy, Chair
Board of Directors



BACKGROUND:

The Master Card Centre for Hockey Excellence was constructed through the efforts of the Lakeshore Lions Club, who had operated the original single rink arena on an adjacent parcel of land since 1951 through a non profit corporation "Lakeshore Lions Arena Inc." (LLAI).

The facility, which was built on Toronto District School Board (TDSB) land with a 50 year land lease, opened in September 2009, and carries a debt of \$41.7 million as of December 31, 2011, of which \$35.5 million is guaranteed by and an additional \$2.2 million is owed to the City of Toronto.

City of Toronto has an annual allocation of prime time ice at community rates, escalating to 800 hours per year in the fifth and subsequent years of the term, and has accessed its allocated hours in the first two start-up years. Since opening, Faustina Hockey Club, an Etobicoke minor hockey team was the beneficiary of the City's subsidized rates. The TDSB has access to 500 hours of non-prime time ice annually at no charge and MasterCard has access to 300 hours of ice annually at no charge.

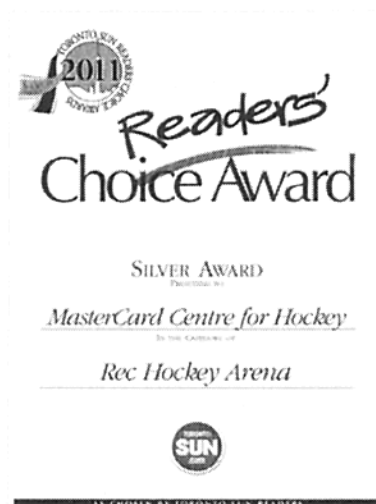
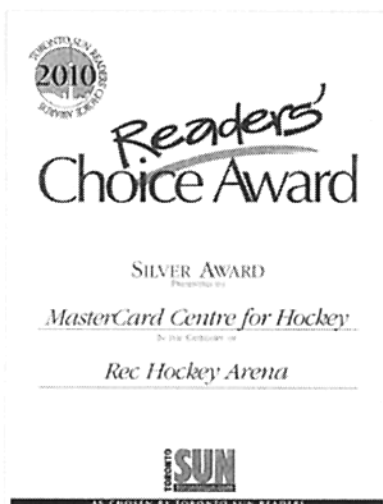
Lakeshore Lions Arena Inc. was able to meet its operating and debt service obligations for the first two years of its operations, however, due to a number of factors including an increase in interest rates, delays in maximizing commercial opportunities, lack of access to a working capital line of credit, weak internal controls and the approaching due date for some of the loans, the corporation risked default in 2011 which would trigger City's loan guarantee for this project being called upon.

To protect the City's financial interest and avoid the loss that would arise from a default, City Council approved the establishment of a City services corporation to assume the leasehold interest, ownership of the asset and project construction debt of the LLA, and to operate and manage the Arena.

Lakeshore Arena Corporation was established and completed the asset purchase in September 2011. In its first season, the Corporation stabilized the business, discharged some of the debt obligations and brought in operational and staffing changes that improved the operating results of the Arena. The Board is reviewing long term strategies to maximize the use and exposure of the facility as a premier skating and hockey destination and minimize the risk and loss to the City.

2011 ACHIEVEMENTS:

- Subsequent to the closing of the sale on September 2011, the Board appointed Trish Power as the interim Executive Director.
- The Board and the Executive Director established a new policy framework in the Arena that is in line with City of Toronto and its City Service Corporations.
- The City of Toronto have settled a \$1.2 million secured loan and a \$0.767 m unsecured loan from Giffels, the builder for the Arena at the time of the closing and in its place, have extended an interest bearing City of Toronto loan to the Arena. In addition the City extended an interest bearing working capital line of credit of \$1 million for seasonal shortfalls. The Arena was able to access the loan for short term needs and have repaid the balance.
- For the period ending December 31, 2011, the Arena operated with a board of three appointed by the City. The Board engaged in a search to recruit two directors at large with experience in real estate and finance as well as one tenant representative. The recruitment process was carried out through November and December and the new board members were appointed by Council in February 2012.
- During 2011, the Board identified irregularities in revenue collection and invoicing practices of the former operator, which resulted in a qualified audit opinion from the auditors of the former operator for the year ended June 30, 2011. The Board and management has taken immediate action and initiated staff and process changes which have strengthened controls through the later part of 2011 and early 2012.



2011 ACHIEVEMENTS CONT...:

- In its first season, the facility achieved 99% prime time utilization and 60% non prime time utilization.

- The Arena hosted CBC's Battle of the Blades in October and November, which was broadcast live from the Olympic size rink with a live audience. The show resulted in electrical and structural improvements to the rink which will enable live broadcasts in future years.

- The Arena was host to a number of high profile events such as Toronto Maple Leafs Prospect Camp, NHLPA Rookie Showcase, GTHL Midget Showcase, Easter Seals, Red Bull Crashed Ice Regionals, Ringette Canada, Toronto Speed Skating Regionals, Judo Canada, Judo Ontario, Reptile Expo, Canada Games- Box Lacrosse, 14 Hockey Tournaments, 8 NHL Visiting Team Practice, and several commercial and film shoots.

- The staffing of the arena has been reviewed and aligned with the operational needs of the facility.

- Under new management, the operating results of the Arena have improved. In the first four months of operation, the Arena realized a surplus of \$233,114, which reduced the \$2.1 million deficiency assumed on the acquisition of the assets.

- The Board is in the process of reviewing long term strategies to maximize the use and exposure of the facility as a premier skating and hockey destination and minimize the risk and loss to the City.



THE FACILITY:

- Lakeshore Arena is a 272,000 sq ft four pad facility with 3 NHL size rinks (200 x85), with the fourth rink having the ability to expand to Olympic size (200 x100).
- The facility has six dressing rooms per pad, as well as seating for 200 people per pad. The Olympic bowl, as it will be called, currently has 1,000 seats, but has the capacity to expand to 4,800 seats.
- The facility has a 23,000 square feet area for Maple Leaf Sports and Entertainment, with practice facility with dressing room, workout room, whirlpool and hot tubs. Maple Leafs practice in the facility daily.
- The Toronto Marlies have a 11,000 square feet practice facility with dressing room, workout and lounge rooms.
- The Hockey Hall of Fame has offices in the facility as well as an 18,000 sq ft climate controlled, museum quality storage and archive space for items that are displayed by rotation at the Hockey Hall of Fame in Toronto. The facility also has a 36 seat theatre and meeting rooms.
- Hockey Canada has office space in the facility, and leases ice in the Olympic Bowl.
- A number of community based leagues such as The Etobicoke Dolphins girls hockey league and the Faustina operate their house league, and select teams from the facility.
- The facility is equipped with a state of the art heat recovery system, for heating, cooling, water heating and dehumidifying purposes.
- The second floor has undeveloped space suitable for a restaurant with up to 200 seats as well as meeting rooms for general use. The second floor is not ready for occupancy and will need to be developed.



THE BOARD:

Ann Ulusoy, Chair

Bruce Bowes, Vice Chair (September 8, 2011-June 30, 2012); Chuck Donohue (July 1, 2012)

Mike St. Amant, Corporate Secretary and Treasurer

Bruce Hetherington (February 6, 2012)

Louis Forbes (February 6, 2012)

Darryl Boynton (February 6, 2012)

THE STAFF:

Trish Power, Executive Director

Dave McCarron, Supervisor, Operations

Will Thompson, Chief Operator

Keith Power, Operator

Wilf Wilson, Operator

Jason Christou, Operator

Deedee Tanguay, Administrative Assistant/Scheduler

Linda Napoleone, Bookkeeper

The Board extends sincere thanks to the City of Toronto management and staff who worked on the transition of the Arena in 2011: Cam Weldon, Brenda Patterson, Christina Hueniken, Ray Mickevicius, Len Brittain, Adir Gupta, Joe Casali, Ray Kessler, Tasse Karakolis, Lance Alexander, the late Nancy Autton and to City staff who continue to provide their expertise to support the operation: Adir Gupta, Case Oortwyn and Laurie Owens.

