LAKESHORE ARENA CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2012

HILBORN LLP

Independent Auditor's Report

To the Board of Directors of
Lakeshore Arena Corporation

We have audited the accompanying financial statements of the Lakeshore Arena Corporation, which comprise the statement of financial position as at December 31, 2012 and the statements of operations and accumulated deficiency, statement of changes in net debt and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility
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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, these financial statements present fairly in all material respects, the financial position of Lakeshore Arena Corporation as at December 31, 2012 and the results of its operations and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Hilborn LLP

Toronto, Ontario
April 15, 2013

Chartered Accountants
Licensed Public Accountants

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LAKESHORE ARENA CORPORATION

Statement of Financial Position

December 31, 2012

	2012	2011
	$	$
FINANCIAL ASSETS		
Cash	**132,715**	274,098
Accounts receivable	**567,800**	516,647
	700,515	790,745
LIABILITIES		
Accounts payable and accrued liabilities	**385,386**	748,718
Line of credit (note 4)	**315,000**	-
Long term debt (note 5)	**41,334,084**	41,746,758
	42,034,470	42,495,476
NET FINANCIAL DEBT	**(41,333,955)**	(41,704,731)
NON-FINANCIAL ASSETS		
Franchise fee	**3,500**	4,000
Tangible capital assets (note 3)	**38,835,826**	39,778,806
Inventory and prepaid expenses	**21,949**	27,267
	38,861,275	39,810,073
ACCUMULATED DEFICIENCY	**(2,472,680)**	(1,894,658)

Approved on behalf of the Board:

Ann Ulusoy
Director

Mike St. Amant
Director

LAKESHORE ARENA CORPORATION

Statement of Operations and Accumulated Deficiency

Year ended December 31, 2012

	2012 Budget $	2012 Budget $	2012 $	2012 $	2011 $	2011 $ (note 8)
Revenues						
Ice rentals		2,584,000		2,845,854		1,359,653
Tenancy rentals		805,796		810,554		251,096
Snack Bar sales	300,000		460,017		115,340	
Snack Bar purchases	(140,000)	160,000	(216,733)	243,284	(75,032)	40,308
Licensing		250,000		272,228		122,416
Utility recovery		99,465		171,007		141,069
Other		93,856		68,494		192,082
		3,993,117		4,411,421		2,106,624
Expenditures						
Salaries and benefits		939,284		995,098		387,388
Legal and audit		45,736		58,783		27,003
Insurance		64,008		49,760		4,620
Interest and bank charges		7,200		20,603		2,024
Building and equipment maintenance		250,000		402,136		130,697
Office and cleaning		62,400		47,983		18,768
Telephone		24,000		10,178		6,964
Utilities		1,088,000		937,327		316,822
Bad debts (recovery)		-		(36,552)		108,853
Interest on long term debt		1,527,155		1,529,494		556,998
Amortization of capital assets		965,185		952,380		304,103
Other		12,000		22,253		9,270
		4,984,968		4,989,443		1,873,510
Surplus (deficiency) for period		(991,851)		(578,022)		233,114
Accumulated deficiency, beginning of period				(1,894,658)		-
Deficiency in assets assumed on acquisition of arena operations				-		(2,127,772)
Accumulated deficiency, end of period				(2,472,680)		(1,894,658)

LAKESHORE ARENA CORPORATION

Statement of Changes in Net Debt

Year ended December 31, 2012

	2012 $	2011 $ (note 8)
Surplus (deficiency) for period	**(578,022)**	233,114
Deficiency in assets assumed on acquisition of arena operations	**-**	(2,127,772)
	(578,022)	(1,894,658)
Acquisition of tangible capital assets	**(8,900)**	(40,086,909)
Utilization (acquisition) of inventories and prepaid expenses	**5,318**	(27,267)
Amortization of tangible capital assets	**952,380**	304,103
	948,798	(39,810,073)
Decrease (increase) in net financial debt	**370,776**	(41,704,731)
Net financial debt, beginning of period	**(41,704,731)**	-
Net financial debt, end of period	**(41,333,955)**	(41,704,731)

LAKESHORE ARENA CORPORATION

Statement of Cash Flows

Year ended December 31, 2012

	2012 $	2011 $ (note 8)
Cash flows from operating activities		
Surplus (deficiency) for period	**(578,022)**	233,114
Item not affecting cash		
Amortization of capital assets	**952,380**	304,103
	374,358	537,217
Non-cash changes to operations		
Accounts receivable	**(51,153)**	(321,203)
Accounts payable and accruals	**(363,332)**	266,257
Inventory and prepaids	**5,318**	(9,696)
	(34,809)	472,575
Investing activities		
Purchase of tangible capital assets	**(8,900)**	(172,000)
Financing activities		
Increase in line of credit	**315,000**	-
Increase in long-term debt	**-**	1,200,000
Principal repayments long-term debt	**(412,674)**	(1,233,393)
	(97,674)	(33,393)
Net increase (decrease) in cash	**(141,383)**	267,182
Cash, beginning of period	**274,098**	6,916
Cash, end of period	**132,715**	274,098

Notes to the Financial Statements

December 31, 2012

1. Establishment and Operations

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 on behalf of the City of Toronto. The Corporation assumed the operations of the Arena effective September 8, 2011.

2. Significant Accounting Policies

These financial statements are the representation of management and have been prepared in accordance with generally accepted accounting principles for local governments as prescribed by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA), the most significant of which are as follows:

(a) Revenue recognition

Ice rentals are recognized on the event date. Tenancy rentals and licensing are recognized on a pro-rata basis over the term of the agreements. Snack bar sales are recognized at the time of sale.

(b) Tangible capital assets

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

Building	50 years
Computer equipments	5 years
Furnitures and fixtures	10 years
Zamboni	8 years

(c) Contributed services

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

(d) Management estimates

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

Key areas where management has made estimates are the valuation and amortization of capital assets. Actual results could differ from those estimates, the impact of which would be recorded in future periods.

December 31, 2012

3. Tangible Capital Assets

	Cost	Accumulated Amortization	2012 Net book Value	2011 Net book Value
	$	$	$	$
Building	39,398,517	1,132,170	38,266,347	39,126,225
Computer Equipment	42,321	17,696	24,625	36,172
Furniture and Fixtures	554,910	86,433	468,477	525,302
Zamboni	95,748	19,371	76,377	91,107
	40,091,496	1,255,670	38,835,826	39,778,806

4. Line of Credit

The Corporation has arranged a line of credit with the City for up to $1,000,000 at a 3% interest rate, to cover periodic operating cash flow shortfalls. There are no specific terms for repayment.

5. Long-Term Debt

	2012	2011
	$	$
Pacific & Western Bank of Canada Facility # 1	9,754,060	9,830,198
Pacific & Western Bank of Canada Facility # 2	20,541,615	20,708,380
Pacific & Western Bank of Canada Facility # 3	4,535,624	4,571,028
Pacific & Western Bank of Canada Facility # 4	4,402,785	4,437,152
City of Toronto	1,200,000	1,200,000
City of Toronto - Energy Retrofit Loan	900,000	1,000,000
	41,334,084	41,746,758

Principal repayments are due as follows:

	City of Toronto	Pacific & Western
	$	$
2013	100,000	297,035
2014	1,300,000	19,005,241
2015	100,000	329,345
2016	100,000	343,897
2017 and thereafter	500,000	19,258,566
	2,100,000	39,234,084

5. **Long-Term Debt** (continued)

The Pacific & Western Bank of Canada credit facilities are secured by a registered leasehold first mortgage, second mortgage and a third mortgage of $4,650,000, $29,000,000 and $5,000,000 respectively. Additionally, rental income, lease income and insurance proceeds from all other properties, are also assigned under a general security agreement. The City has provided guarantee and postponement of claim agreements in the amounts of $10,000,000, $19,000,000 and $5,000,000 plus accrued and capitalized interest on facilities #1, #2, and #4 respectively.

Pacific & Western Bank of Canada Facility #1 bears interest at CIBC's prime less 1.4%. Interest only is payable monthly and the loan maturity date is September 30, 2014.

Pacific & Western Bank of Canada Facility #2 bears interest at 5.23% per annum. The facility is payable in scheduled monthly payments of principal and interest and the loan maturity date is October 31, 2017.

Pacific & Western Bank of Canada Facility #3 bears interest at CIBC's prime rate less 1.4% per annum. Interest only is payable monthly and the loan maturity date is September 30, 2014.

Pacific & Western Bank of Canada Facility #4 bears interest at CIBC's prime rate plus 1.25% per annum compounded monthly. Interest only is payable monthly and the loan maturity date is September 30, 2014.

Included in the Pacific & Western Bank of Canada credit facilities agreement is a provision for Lakeshore Arena Corporation to make mandatory principal repayments on Facilities #1, #3, and #4 from Net Operating Surplus determined annually at June 30. Repayments for years 1 to 10 are at 75% of Net Operating Surplus, years 11 to 13 are at 80% of Net Operating Surplus, and, thereafter 85% of Net Operating Surplus until the loans are repaid in full. Net Operating Surplus for the twelve months ending June 30, 2011 was $194,546 which was determined by the annual surplus of $323,666, excluding building amortization and contributed assets revenue, less principal loan payments of $129,120. The additional principal repayments paid in 2012 totaled $145,910 (75% of $194,546) which subsequently reduced the remaining principal balances of the three loan facilities.

The City of Toronto has provided a loan of $1,200,000 at an interest rate of 3% with interest only payable quarterly, enabling the Corporation to settle its past loans with Giffels Corporation. This loan is repayable in full on September 12, 2014. In addition, the City has provided an energy retrofit loan in the amount of $1,000,000, repayable in quarterly installments of $25,000 commencing January 1, 2012. The principal amount is non-interest bearing unless the funds remain outstanding past the due date at which time interest will accrue at RBC's prime rate on a daily basis.

6. **Related Party Transactions**

Insurance

The City of Toronto provides for facility insurance for the Corporation. The Corporation paid $50,000 to the City for the current year premiums. The City waived the premiums of $12,500 for the period October 1, 2011 to December 31, 2011.

Interest

The Corporation incurred interest of $38,820 on outstanding debt to the City and the amount payable is recorded in accounts payable and accrued liabilities.

Notes to the Financial Statements (continued)

December 31, 2012

6. **Related Party Transactions** (continued)

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.

Discounted Ice Time

As a continuation of an agreement with Lakeshore Lions Arena Corporation, the City receives exclusive prime time ice rental at an hourly rate equivalent to the average rate for adult ice time charged at arena facilities operated by the City from time to time. This agreement is for 400 hours in 2011, 500 hours in 2012, and 600 hours in 2013.

7. **Financial Instruments**

The estimated fair value of cash, accounts receivable, accounts payable and accrued liabilities approximate carrying value given the relatively short term nature of the instruments. The estimated value of long term debt approximates carrying value as the interest rates charged on the debt approximate current interest rates on similar facilities.

The Corporation is exposed to interest rate risk on the floating rate portion of long-term debt facilities #1, #3 and #4 due to Pacific and Western Bank of Canada. These three loans all mature on September 30, 2014.

8. **Comparative Figures**

The comparative figures are for the period from date of incorporation July 19, 2011 to December 31, 2011.

9. **Future Accounting Changes**

PS 3450 provides guidance with respect to the recognition, derecognition, and measurement policies followed in the financial statements of government organizations. The application of this standard is prospective and will not require the restatement of financial statements of prior periods. Application of this standard will require the entity to:

- recognize all financial assets and financial liabilities on its statement of financial position;
- identify those financial assets and financial liabilities to be measured at fair value; and
- apply the measurement provisions of this Section prospectively. Any adjustment of the previous carrying amount is recognized as an adjustment to the accumulated remeasurement gains and losses at the beginning of the fiscal year in which this Section is initially applied.

For government organizations, the requirements of this section apply to fiscal years beginning on or after April 1, 2012. Earlier adoption is permitted.

The Corporation is in the process of assessing its financial instruments and the impact of the section on its financial statements.

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