



Condensed Consolidated Interim Financial Statements

**CANLAN ICE SPORTS CORP.**

For period ended September 30, 2017

(Unaudited)

***Notice of no auditor review of condensed consolidated interim financial statements***

*The accompanying condensed consolidated interim financial statements of the Company, as at and for the period ended September 30, 2017 have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by the entity's auditor.*

# CANLAN ICE SPORTS CORP.

Condensed Consolidated Statements of Financial Position  
(Expressed in thousands of dollars)

	September 30, 2017 (unaudited)	December 31, 2016 (audited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 4)	\$ 14,090	\$ 16,335
Accounts receivable	1,807	2,437
Inventory	1,174	1,138
Prepaid expenses	1,757	817
Financial asset held for trading (note 12a)	1,201	259
	<u>20,029</u>	<u>20,986</u>
Non-current assets:		
Property, plant and equipment – facilities (note 5)	98,651	101,934
Investment properties	548	566
Deferred tax assets (note 11)	2,059	1,768
Other assets	275	305
	<u>101,533</u>	<u>104,573</u>
	<u>\$ 121,562</u>	<u>\$ 125,559</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 7,982	\$ 9,455
Deferred revenue and customer deposits	12,247	12,635
Current portion of:		
Obligations under finance leases	933	1,087
Debt (note 6)	5,455	3,695
	<u>26,617</u>	<u>26,872</u>
Non-current liabilities:		
Obligations under finance leases	1,645	2,326
Debt (note 6)	48,980	51,898
Deferred tax liabilities (note 11)	1,326	898
	<u>51,951</u>	<u>55,122</u>
Total liabilities:	78,568	81,994
Shareholders' equity:		
Share capital (note 7)	63,109	63,109
Contributed surplus	543	543
Foreign currency translation reserve	2,328	3,222
Deficit	(22,986)	(23,309)
	<u>42,994</u>	<u>43,565</u>
	<u>\$ 121,562</u>	<u>\$ 125,559</u>

Commitments and contingencies (note 10)

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

Approved on behalf of the Board:

\_\_\_\_\_  
/s/ W. Grant Ballantyne  
Director

\_\_\_\_\_  
/s/ Joey St-Aubin  
Director

# CANLAN ICE SPORTS CORP.

Condensed Consolidated Statements of Earnings and Comprehensive Income  
(Unaudited)

(Expressed in thousands, except for share and per share amounts)

	Three months ended September 30, 2017		Nine months ended September 30, 2016	
Revenue:				
Ice rink and recreational facilities (note 15)	\$ 17,370	\$ 16,821	\$ 61,133	\$ 59,234
Expenses (note 17):				
Ice rink and recreational facilities				
Salaries, wages and benefits	7,780	7,527	24,417	23,313
Selling and customer service	2,844	3,076	8,888	8,744
Utilities	1,919	1,975	5,807	6,090
Cost of goods sold	1,097	1,066	4,138	4,096
Repairs and maintenance	1,227	1,291	3,366	3,210
Property tax	851	726	2,543	2,211
Facility lease	280	280	840	841
	15,998	15,941	49,999	48,505
Earnings from ice rink and recreational facilities before the undernoted	1,372	880	11,134	10,729
General and administration expenses (notes 9 and 17)	1,144	1,109	3,845	3,858
Earnings (loss) before the undernoted	228	(229)	7,289	6,871
Other expenses (income) (note 17):				
Depreciation	1,699	1,752	5,245	5,217
Foreign exchange loss (gain)	17	(3)	27	(466)
Gain on sale of assets	(1)	(16)	(7)	(21)
	1,715	1,733	5,265	4,730
Finance income (costs):				
Finance income	22	17	76	43
Finance costs	(566)	(543)	(1,682)	(2,079)
Fee on settlement of debt (note 6)	-	-	-	(2,318)
Gain (loss) on financial assets held for trading (note 12a)	542	66	942	(797)
	(2)	(460)	(664)	(5,151)
Earnings (loss) before income taxes	(1,489)	(2,422)	1,360	(3,010)
Income tax expense (recovery) (note 11)				
Current	(380)	(873)	100	(873)
Deferred	56	(434)	137	(1,194)
	(324)	(1,307)	237	(2,067)
Net earnings (loss)	(1,165)	(1,115)	1,123	(943)
Other comprehensive income (loss):				
<i>Items that may be reclassified subsequently to net earnings:</i>				
Foreign currency translation differences	(452)	191	(894)	(671)
Total comprehensive income (loss)	(1,617)	(924)	229	(1,614)
Basic and fully diluted earnings (loss) per share	\$ (0.09)	\$ (0.08)	\$ 0.08	\$ (0.07)
Weighted average common shares issued for basic and diluted earnings per share calculations	13,337,448	13,337,448	13,337,448	13,337,448

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

# CANLAN ICE SPORTS CORP.

Condensed Consolidated Statements of Changes in Equity  
(Unaudited)

(Expressed in thousands)

	Share capital	Contributed surplus	Foreign currency translation reserve	Deficit	Total
Balance at December 31, 2015	\$ 63,109	\$ 543	\$ 3,612	\$ (23,536)	\$ 43,728
Net loss	-	-	-	(943)	(943)
Other comprehensive loss	-	-	(671)	-	(671)
Dividends to common shareholders	-	-	-	(800)	(800)
Balance at September 30, 2016	\$ 63,109	\$ 543	\$ 2,941	\$ (25,279)	\$ 41,314
Net earnings	-	-	-	2,237	2,237
Other comprehensive income	-	-	281	-	281
Dividends to common shareholders	-	-	-	(267)	(267)
Balance at December 31, 2016	\$ 63,109	\$ 543	\$ 3,222	\$ (23,309)	\$ 43,565
Net earnings	-	-	-	1,123	1,123
Other comprehensive loss	-	-	(894)	-	(894)
Dividends to common shareholders	-	-	-	(800)	(800)
Balance at September 30, 2017	\$ 63,109	\$ 543	\$ 2,328	\$ (22,986)	\$ 42,994

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

# CANLAN ICE SPORTS CORP.

Condensed Consolidated Statements of Cash Flows  
(Unaudited)

(Expressed in thousands)

For nine months ended September 30

	2017	2016
Cash provided by (used in):		
Operations:		
Net earnings (loss)	\$ 1,123	\$ (943)
Adjustments for:		
Depreciation	5,245	5,217
Gain on sale of assets	(7)	(21)
Interest and (gain) loss on financial assets held for trading	664	2,833
Fee on settlement of debt	-	2,318
Deferred income taxes	137	(1,194)
Foreign exchange gain	(1)	(12)
Net change in non-cash working capital (note 16)	(2,061)	(1,183)
Interest paid	(1,621)	(2,298)
Fee paid on settlement of debt	-	(2,318)
Interest received	76	43
	3,555	2,442
Financing:		
Principal repayments of debt	(2,412)	(45,291)
Increase in debt	1,750	48,500
Principal repayments on obligations under finance lease	(843)	(727)
Payment of dividends on common shares	(800)	(800)
	(2,305)	1,682
Investments:		
Net proceeds on sale of assets	7	21
Expenditures on ice rink and recreational facilities	(3,302)	(2,534)
Expenditures on other assets	(54)	(47)
	(3,349)	(2,560)
Effect of changes in foreign currency rates on cash and cash equivalents	(146)	(118)
Increase (decrease) in cash and cash equivalents	(2,245)	1,446
Cash and cash equivalents, beginning of year	16,335	10,065
Cash and cash equivalents, end of period	\$ 14,090	\$ 11,511

Supplemental cash flow information (note 16)

The accompanying notes form an integral parts of these condensed consolidated interim financial statements.

# CANLAN ICE SPORTS CORP.

Notes to Condensed Consolidated Interim Financial Statements  
Nine months ended September 30, 2017 and 2016

(Tabular amounts expressed in thousands, except share and per share amounts)

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## 1. Reporting entity:

Canlan Ice Sports Corp. and its subsidiaries (collectively referred to as the “Company”) focus on the development, lease, acquisition and operation of multi-purpose recreation and entertainment facilities in North America. Canlan Ice Sports Corp. is a company incorporated in Canada, whose shares are publicly traded on the Toronto Stock Exchange. The Company’s head office is located at 6501 Sprott Street, Burnaby, British Columbia, Canada.

## 2. Basis of preparation:

### (a) Statement of compliance:

The condensed consolidated interim financial statements of the Company were prepared using the same accounting policies and methods as those used in the Company’s consolidated financial statements for the year ended December 31, 2016. These condensed consolidated interim financial statements are in compliance with International Accounting Standard 34 (“IAS 34”), Interim Financial Reporting. Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”), have been omitted or condensed.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 9, 2017.

### (b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis, except for liabilities for cash-settled stock-based payment arrangements and derivative financial instruments which are measured at fair value.

### (c) Basis of presentation:

The notes presented in these interim financial statements include only significant changes and transactions that have occurred since the last fiscal year end.

### (d) Functional and presentation currency:

The Company’s functional and presentation currency is the Canadian dollar. The functional currency of the Company’s United States (U.S.) subsidiaries is the U.S. dollar. Accordingly, the financial statements of the Company’s U.S. subsidiaries have been translated into Canadian dollars as follows:

- i) Asset and liability amounts are translated at the exchange rate at the end of each reporting period;
- ii) Amounts included in the determination of earnings are translated at the respective monthly average exchange rates; and
- iii) Any gains or losses from the translation of amounts determined in (i) and (ii) above are recognized in other comprehensive income and accumulated in the foreign currency translation reserve, which is a separate component of shareholders’ equity.

# CANLAN ICE SPORTS CORP.

Notes to Condensed Consolidated Interim Financial Statements  
Nine months ended September 30, 2017 and 2016

(Tabular amounts expressed in thousands, except share and per share amounts)

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## 2. Basis of preparation (continued):

### (d) Functional and presentation currency (continued):

Transactions in currencies other than the Company's functional currency, and not related to the Company's U.S. subsidiaries, are translated at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on the retranslation are recognized in net earnings.

### (e) Use of estimates and judgments:

The preparation of the condensed consolidated interim financial statements in conformity with IAS 34 requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Key sources of estimation uncertainty are the areas where assumptions and estimates have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities. These are:

- *Accounts receivable* - in determining the valuation of accounts receivable and the allowance for doubtful accounts, the Company relies on current customer information, payment history, and trends.
- *Accounting for stock-based compensation* - the fair value of the Company's stock appreciation rights ("SARs") is based on certain estimates used in applying the Black-Scholes pricing model. The rights are cash-settled and are classified as a liability and re-measured to fair value at each reporting date by recognizing compensation cost over the life of the SARs based on the vesting terms of each tranche.
- *Revenue recognition* - revenue from recreational facility operations is recognized as the product or service is supplied. Deferred revenue relates to amounts received in advance for the Company's sports leagues; revenue is recognized as games are played. A certain amount of judgment is required in the determination of revenue recognition based on the Company's estimates. Any differences are recognized upon completion of the season.
- *Deferred income tax* - deferred income tax assets and liabilities are calculated by assessing temporary differences resulting from differing treatment of items for tax and accounting purposes and net operating losses carried forward. The valuation of deferred tax assets are measured based on management's estimates of future taxable income and expected timing of reversals of temporary differences.

# CANLAN ICE SPORTS CORP.

Notes to Condensed Consolidated Interim Financial Statements  
Nine months ended September 30, 2017 and 2016

(Tabular amounts expressed in thousands, except share and per share amounts)

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## 2. Basis of preparation (continued):

(e) Use of estimates and judgments (continued):

Critical judgments that have a higher degree of judgment and the most significant effect on the Company's financial reporting, apart from those involving estimates (discussed above), include:

- *Recoverability of property, plant, and equipment* - the recoverability of the Company's recreational properties is based on future discounted cash flows expected to be generated from such assets. These cash flows are based on management's approved budgets and projections. When appropriate, third-party appraisals will also be used to assess the recoverability of recreational properties.
- *Useful lives of property, plant, and equipment* - property, plant, and equipment are depreciated on a straight-line basis over their estimated useful life. Approximately 81% of the Company's total assets are comprised of recreational properties. The selection method of depreciation and length of the depreciation period could have a material impact on depreciation expense and the net book value of the Company's assets. Assets may become obsolete or require replacement before the end of their estimated useful lives, in which case any remaining unamortized costs would be written off.

## 3. Significant accounting policies:

Except for the following, these condensed consolidated interim financial statements were prepared using the same accounting policies and methods as those used in the December 31, 2016 consolidated financial statements.

New standard and interpretation not yet adopted:

- On May 28, 2014 the IASB issued IFRS 15 - *Revenue from Contracts with Customers*. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company has completed the five-step analysis in accordance with IFRS 15 on its major revenue streams to assess the potential impact of the new standard and has concluded that there will be no material impact to the consolidated financial statements upon adoption on January 1, 2018.

## 4. Restricted cash

Cash and cash equivalents include \$380,000 (2016 – \$381,000) of restricted cash representing funds held in trust in accordance with the terms of an operating agreement related to a recreation facility operated by the Company on behalf of a third party. These funds are maintained as operating and capital expenditure reserves and the balance will change as reserve requirements are adjusted.

# CANLAN ICE SPORTS CORP.

Notes to Condensed Consolidated Interim Financial Statements  
 Nine months ended September 30, 2017 and 2016

(Tabular amounts expressed in thousands, except share and per share amounts)

## 5. Property, plant and equipment - facilities:

September 30, 2017	Cost	Accumulated amortization	Net book value
Land	\$ 16,633	\$ -	\$ 16,633
Buildings and building improvements	115,532	54,362	61,170
Leasehold improvements	2,046	1,027	1,019
Rink board systems	5,374	2,558	2,816
Refrigeration equipment	16,932	8,425	8,507
Machinery and equipment	14,540	10,093	4,447
Computers, furniture and fixtures	10,673	9,381	1,292
Ice resurfacing equipment	5,486	4,427	1,059
Work in progress	1,708	-	1,708
<b>\$ 188,924</b>	<b>\$ 90,273</b>	<b>\$ 98,651</b>	
December 31, 2016	Cost	Accumulated amortization	Net book value
Land	\$ 16,870	\$ -	\$ 16,870
Buildings and building improvements	116,684	51,866	64,818
Leasehold improvements	2,045	861	1,184
Rink board systems	5,413	2,401	3,012
Refrigeration equipment	17,049	7,906	9,143
Machinery and equipment	13,543	9,471	4,072
Computers, furniture and fixtures	10,412	9,058	1,354
Ice resurfacing equipment	5,313	4,158	1,155
Work in process	326	-	326
<b>\$ 187,655</b>	<b>\$ 85,721</b>	<b>\$ 101,934</b>	

For the nine months ended September 30, 2017 and 2016, no impairment losses were recognized.

# CANLAN ICE SPORTS CORP.

Notes to Condensed Consolidated Interim Financial Statements  
 Nine months ended September 30, 2017 and 2016

(Tabular amounts expressed in thousands, except share and per share amounts)

## 6. Debt:

	Maturity dates	Interest rates	September 30, 2017	December 31, 2016
Fixed rate	2023	3.52%	\$ 36,011	\$ 37,518
Variable rate	2023	Prime + 0.50%	9,342	9,739
	2018	Prime + 0.50%	2,211	500
	2019	LIBOR + 2.50%	4,927	5,636
	2020	LIBOR + 2.50%	2,273	2,593
			54,764	55,986
Deferred financing costs			(329)	(393)
			54,435	55,593
Current portion			5,455	3,695
Non-current portion			\$ 48,980	\$ 51,898

As at September 30, 2017, debt consists of seven credit facilities, five of which have been drawn, as follows:

- \$38,500,000 loan amortized over 15 years, maturing on May 25, 2023, interest at Prime rate plus 0.50% per annum payable monthly. The Company entered into an interest rate swap contract (note 12a) to fix the interest rate at 3.52% per annum payable monthly. At September 30, 2017, the balance outstanding was \$36,011,000;
- \$10,000,000 loan amortized over 15 years, maturing on May 25, 2023, interest at Prime rate plus 0.50% per annum payable monthly. At September 30, 2017, the balance outstanding was \$9,342,000;
- \$5,433,000 (US\$4,973,000) loan amortized over 15 years, maturing on August 1, 2019, interest at LIBOR plus 2.5% per annum payable monthly. At September 30, 2017, the balance outstanding was \$4,927,000 (US\$3,948,000). This loan is denominated in U.S. currency;
- \$2,797,000 (US\$2,200,000) loan amortized over 15 years, maturing on February 1, 2020, interest at LIBOR plus 2.5% per annum payable monthly. At September 30, 2017, the balance outstanding was \$2,273,000 (US\$1,821,000). This loan is denominated in U.S. currency;
- \$5,000,000 demand revolving capital expenditure loan amortized over 15 years, interest at Prime rate plus 0.50% per annum. At September 30, 2017, the balance outstanding was \$2,211,000;
- \$745,000 demand revolving operating loan, interest at Prime rate plus 0.50% per annum. No amounts have been drawn on this loan to date; and
- \$3,255,000 seasonal demand revolving operating loan, interest at Prime rate plus 0.50% per annum. Draws from this operating loan were made available from June 1, 2017 and amounts drawn shall be repaid by November 30, 2017. This loan matures on November 30, 2017. No amounts have been drawn on this loan to date.

# CANLAN ICE SPORTS CORP.

Notes to Condensed Consolidated Interim Financial Statements  
Nine months ended September 30, 2017 and 2016

(Tabular amounts expressed in thousands, except share and per share amounts)

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## 6. Debt (continued):

These credit facilities are secured by first mortgages, demand debentures, general security agreements, general assignments of book debts, assignments of rents and insurance, and specific pledging of title to, and interest in the respective land and buildings.

Amortization of deferred financing costs related to these facilities totaling \$60,000 (2016 - \$157,000) was recorded in finance costs.

In June 2016, the Company borrowed \$48,500,000 of debt on ice rink properties. The Company used these funds to extinguish \$42,900,000 of existing debt. As a result of the refinancing, the Company incurred an early repayment fee of \$2,318,000 that has been recognized as a fee on settlement of debt in the statement of earnings and comprehensive income and as part of interest paid in the statement of cash flows for the period ended September 30, 2016.

## 7. Share capital:

The common shares of the Company are listed on the Toronto Stock Exchange.

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	Number of Shares	Amount
(a) Authorized:		
500,000,000 common shares of no par value		
(b) Issued and outstanding:		
September 30, 2017 and December 31, 2016	13,337,448	\$ 63,109

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On August 10, 2017, the Company declared a quarterly dividend of \$0.02 per share which was paid on October 17, 2017. In addition, the Company paid quarterly dividends of \$0.02 per share on each of April 17, 2017 and July 18, 2017 respectively.

## 8. Stock-based compensation:

In 2005, the Company established a Stock Appreciation Rights plan (the SARs Plan) granted by the Company's Board of Directors subject to terms and conditions of the Canlan Ice Sports Corp. Director and Employee Stock Appreciation Rights Plan (2016). The SARs Plan provides eligible directors and employees of the Company with the right to receive cash equal to the appreciation of the Company's common shares subsequent to the date of grant upon the exercise of rights.

# CANLAN ICE SPORTS CORP.

Notes to Condensed Consolidated Interim Financial Statements  
Nine months ended September 30, 2017 and 2016

(Tabular amounts expressed in thousands, except share and per share amounts)

## 8. Stock-based compensation (continued):

The table below summarizes the change in the number of SARs:

	Number of SARs	Weighted average exercise price
Number of SARs outstanding, December 31, 2016	667,501	\$ 3.27
Granted	174,999	3.65
Exercised	(46,668)	2.53
Expired	(58,332)	3.47
Balance, September 30, 2017	737,500	\$ 3.40
Exercisable, December 31, 2016	35,001	\$ 2.98
Exercisable, September 30, 2017	35,000	\$ 3.25

The following table summarizes information about the stock appreciation rights outstanding at September 30, 2017:

Exercise price	Rights outstanding			Rights exercisable		
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price	
\$ 3.14	23,333	2 months	\$ 3.14	11,667	\$ 3.14	
\$ 3.30	35,000	6 months	\$ 3.30	23,333	\$ 3.30	
\$ 3.34	562,500	26 months	\$ 3.34	-	\$ 3.34	
\$ 3.47	11,667	29 months	\$ 3.47	-	\$ 3.47	
\$ 3.85	35,000	31 months	\$ 3.85	-	\$ 3.85	
\$ 3.74	70,000	33 months	\$ 3.74	-	\$ 3.74	

During the nine months ended September 30, 2017, the Company recognized compensation expense of \$130,000 (2016 – \$253,000) in respect of the SARs Plan. This amount was calculated in accordance with the fair value method of accounting. At September 30, 2017, the SARs liability included within accounts payable and accrued liabilities was \$117,000 (2016 - \$57,000).

The fair value of SARs was estimated using the Black-Scholes pricing model with the following assumptions:

	September 30, 2017	September 30, 2016
Risk free interest rate	1.73%	0.54%
Expected dividend yield	2.12%	2.21%
Expected lives of rights	2 to 33 months	2 to 18 months
Expected volatility	6% - 15%	17% - 21%

Risk free interest rate is the Government of Canada long-term bond rate. Expected dividend yield assumes a continuation of the most recent dividend payment for the quarterly dividends. Expected lives of rights is based on historical experience of rights being exercised. Expected volatility is based on the historical share price volatility over the past 2 months to 33 months.

# CANLAN ICE SPORTS CORP.

Notes to Condensed Consolidated Interim Financial Statements  
Nine months ended September 30, 2017 and 2016

(Tabular amounts expressed in thousands, except share and per share amounts)

## 9. General and administration expenses:

General and administration expenses consist of the following:

	Nine months ended September 30,	
	2017	2016
Salaries, wages and benefits	\$ 2,884	\$ 2,706
Professional and regulatory fees	289	395
Office	267	268
Stock appreciation rights	130	253
Travel	200	157
Other	75	79
	\$ 3,845	\$ 3,858

## 10. Commitments and contingencies:

- (a) At September 30, 2017, the Company has lease agreements with third parties under the terms of which the Company leases and operates certain ice rink and recreational facilities. During the lease terms, the Company does not assume substantially all the risks and rewards of ownership. Accordingly, the lease agreements have been accounted for as operating leases. The total minimum lease payments are as follows:

Not later than one year	\$ 1,178
Later than one year and not later than five years	3,850
Later than five years	7,482

The lease expenditure charged to net earnings during the year is presented as facility lease in the consolidated statement of earnings and comprehensive income.

Terms of facility operating leases are as follows:

- (i) A two-pad rink facility in British Columbia with a lease term that ends on December 31, 2024.
- (ii) A two-pad rink facility in Ontario with a lease term that ends on January 31, 2020.
- (iii) On August 1, 2006, the Company purchased a six-pad rink facility in Ontario. Upon purchase, the Company assumed a forty-nine year land lease agreement related to the land on which the facility is situated. The land lease agreement is with a third party and ends on October 30, 2044.
- (iv) A multi-sport facility in Ontario with a lease term that began on April 1, 2012 and will end on October 15, 2023 with two five-year renewal options.
- (b) Due to the nature of the sports and recreation business, various lawsuits involving the Company are pending. The financial impact of these lawsuits is not determinable, but management believes, based on legal counsels' opinions, that the outcome will not materially affect the Company's financial position.
- (c) At September 30, 2017, the Company has letters of guarantee outstanding with various vendors in the amount of \$1,105,000 (2016 - \$1,105,000).

# CANLAN ICE SPORTS CORP.

Notes to Condensed Consolidated Interim Financial Statements  
Nine months ended September 30, 2017 and 2016

(Tabular amounts expressed in thousands, except share and per share amounts)

## 11. Income taxes:

The tax effects of timing differences that give rise to deferred tax assets and liabilities are presented below.

	September 30, 2017	December 31, 2016
Deferred income tax assets:		
Unused tax losses	\$ 456	\$ 383
Deferred revenue	94	120
Properties	907	579
Financing fees	389	488
Other	213	198
	2,059	1,768
Deferred income tax liability:		
Properties	(1,315)	(888)
Other	(11)	(10)
	(1,326)	(898)
Net deferred income tax assets	\$ 733	\$ 870

## 12. Financial instruments:

### (a) Fair value:

The Company has the following financial instruments: cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, debt and financial asset held for trading. The carrying values of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities are considered by management to approximate their fair values due to their short-term nature.

Other financial instruments of a long-term nature may be impacted by changes in market yields, which can result in differences between their carrying values and their fair values. Management estimates that these differences are not material to the financial statements as at September 30, 2017.

In June 2016, the Company entered into an interest rate swap agreement to fix the interest rate on a portion of its debt (note 6). The fair value of this derivative instrument at September 30, 2017 was \$1,201,000 (2016 - \$259,000) and has been presented as financial asset held for trading on the statement of financial position. Changes in fair value of the instrument are recognized in net earnings. For the period ended September 30, 2017, a gain of \$942,000 (2016 - loss of \$797,000) was recognized. The interest rate swap is classified as Level 2 in the fair value hierarchy.

Debt is categorized as Level 2 within the fair value hierarchy.

### (b) Financial risk management:

#### (i) Interest rate risk:

The terms of the Company's outstanding debt are described in note 6. As certain of the Company's debt instruments bear interest at floating rates and are not economically hedged by interest rate swaps, fluctuations in these rates will impact the cost of financing incurred in future periods. A change in the base market rates upon which these loans accrue interest by 1% will increase or decrease interest expense by approximately \$188,000 (2016 - \$185,000) per annum.

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## 12. Financial instruments:

### (b) Financial risk management (continued):

#### (ii) Liquidity risk:

Liquidity risk is the risk from the Company's potential inability to meet its financial obligations. The Company constantly monitors its cash flows and operations to ensure current and long-term obligations can be met. The Company's capital resources are comprised of cash and cash equivalents and cash flow from operating activities. Due to the seasonality of the business, the Company finances a portion of its assets through customer deposits received in advance of the services being provided. At September 30, 2017, the Company has a working capital deficiency of \$6,588,000 (2016 - \$5,886,000). During the off-peak season, the Company has an available demand revolving operating loan to provide working capital, if necessary (note 6).

#### (iii) Credit risk:

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable. Effective monitoring of accounts receivable is a core control procedure of the Company and appropriate provisions are recorded for impaired accounts. Historically, the Company has not experienced significant losses related to trade accounts receivable from individual customers. The Company does not face any material concentrations of credit risk. The Company's credit risk on cash and cash equivalents is limited as it maintains its holdings with large highly rated financial institutions.

#### (iv) Currency risk:

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currency of the Company, the Canadian dollar. The currency in which these transactions primarily are denominated in is the U.S. dollar. At September 30, 2017, the Company has US\$5,769,000 debt repayable in U.S. currency (note 6). The Company is exposed to the risk of loss depending on the relative movement of this currency against the Canadian dollar. The Company does not currently enter into forward contracts to mitigate this risk. As at September 30, 2017, if the Canadian dollar had strengthened or weakened by 5% in relation to the U.S. dollar, with all other factors remaining constant, the debt repayable, as reported in Canadian currency, could have decreased or increased by approximately \$360,000 (2016 - \$411,000), respectively.

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## 13. Capital risk management:

The Company defines capital that it manages as the sum of cash and cash equivalents, long-term borrowings, and shareholders' equity.

The Company's objectives when managing its capital are:

- (a) To safeguard the Company's ability to continue as a going concern so that it can provide services to its customers and continue to reduce debt;
- (b) To comply with debt covenants;
- (c) To return excess cash to shareholders through payment of dividends; and
- (d) To maintain a financial position suitable for supporting the Company's growth strategies and provide an adequate return to shareholders.

The Company executes a planning and budgeting process to determine the funds required to ensure the Company has appropriate liquidity to meet its operating and growth objectives. The Company ensures that there are sufficient credit facilities to meet its current and future business requirements, taking into account its anticipated cash flows from operations and its holding of cash and cash equivalents. The Company is required to comply with covenant criteria established by its lenders. These include tangible net worth and debt coverage ratio measurements. As at September 30, 2017 and December 31, 2016, the Company was in compliance with these covenants. The Company is not subject to any statutory capital requirements, and has not made any changes with respect to its overall capital management strategy during the nine months ended September 30, 2017.

## 14. Related party transactions:

- (a) During the nine months ended September 30, 2017, the Company expensed \$132,000 (2016 - \$123,000) in directors' fees.
- (b) The Company's majority shareholder is Bartrac Investments Ltd. ("Bartrac"). Two of the Company's Directors are also Directors of Bartrac. During the nine months ended September 30, 2017 and 2016, there were no related party transactions between the Company and Bartrac.
- (c) The Company's key management personnel include the Directors of the Company and executive officers. Key management personnel compensation comprised the following:

	Nine months ended September 30,	
	2017	2016
Short-term employee benefits	\$ 1,396	\$ 1,334
Stock appreciation rights	130	253
Post employment benefits	52	45
	<u>\$ 1,578</u>	<u>\$ 1,632</u>

- (d) Directors and executive officers participate in the Company's stock appreciation rights program (note 8). During the nine months ended September 30, 2017, the Company paid \$58,000 (2016 - \$113,000) related to stock appreciation rights exercised.

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## 15. Segmented information:

The Company's operations consist of full service ice rink and recreational facilities which constitute a single operating segment.

### (a) Ice rink and recreational facilities revenue:

	Nine months ended September 30,	
	2017	2016
Ice and field sales	\$ 48,425	\$ 46,536
Food and beverage	8,882	8,761
Sports store	1,402	1,387
Space rental	958	836
Sponsorship	857	947
Management and consulting fees	203	347
Other	406	420
	<u>\$ 61,133</u>	<u>\$ 59,234</u>

There is no single customer who accounts for 10% or more of the Company's revenue.

### (b) Geographic:

	Nine months ended September 30, 2017			2016		
	Canada	USA	Total	Canada	USA	Total
Revenue	\$ 53,929	\$ 7,204	\$ 61,133	\$ 51,946	\$ 7,288	\$ 59,234

	September 30, 2017			December 31, 2016		
	Canada	USA	Total	Canada	USA	Total
Non-current assets	\$ 82,435	\$ 19,098	\$ 101,533	\$ 83,894	\$ 20,679	\$ 104,573
Total assets	\$ 100,537	\$ 21,025	\$ 121,562	\$ 102,486	\$ 23,073	\$ 125,559

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## 16. Supplemental cash flow information:

	Nine months ended September 30,	
	2017	2016
(a) Net changes in non-cash working capital:		
Accounts receivable	\$ 630	\$ 455
Inventory	(36)	(19)
Prepaid expenses	(940)	(563)
Accounts payable and accrued liabilities	(1,473)	(196)
Deferred revenue and customer deposits	(388)	(978)
Effect of change in foreign currency	146	118
	<u>\$ (2,061)</u>	<u>\$ (1,183)</u>
(b) Non-cash transactions:		
Finance lease obligations	\$ -	\$ 1,830

## 17. Expenses by function:

The Company's consolidated statement of earnings and comprehensive income presents expenses on a mixed basis. IFRS requires a Company to present expenses according to its nature or function. The following information has been provided to disclose the Company's expenses by function:

	Nine months ended September 30,	
	2017	2016
Ice rink and recreational facilities expense	\$ 55,160	\$ 53,608
General and administrative expenses	\$ 3,929	\$ 3,972
Other income	\$ 20	\$ (487)

The changes in the above table, as compared to the consolidated statement of earnings and comprehensive income, relate to depreciation of \$5,245,000 (2016 - \$5,217,000) being allocated from other expenses to ice rink and recreational facilities in the amount of \$5,161,000 (2016 - \$5,103,000), and to general and administrative expenses in the amount of \$84,000 (2016 - \$114,000).