



**CANLAN ICE SPORTS CORP.**

YEARS ENDED DECEMBER 31, 2016 AND 2015



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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Canlan Ice Sports. Corp.

We have audited the accompanying consolidated financial statements of Canlan Ice Sports Corp., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, the consolidated statements of earnings and comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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



*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Canlan Ice Sports Corp. as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

**KPMG LLP (signed)**

Chartered Professional Accountants

March 21, 2017

Vancouver, Canada

# CANLAN ICE SPORTS CORP.

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

Years ended December 31, 2016 and 2015

	2016	2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 4)	\$ 16,335	\$ 10,065
Accounts receivable	2,437	2,326
Inventory (note 5)	1,138	1,141
Prepaid expenses	817	891
Financial asset held for trading (note 16a)	259	-
	20,986	14,423
Non-current assets:		
Property, plant and equipment - facilities (note 6)	101,934	103,631
Investment properties (note 7)	566	574
Deferred tax assets (note 15b)	1,768	1,597
Other assets	305	379
	104,573	106,181
	\$ 125,559	\$ 120,604
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities (note 8)	\$ 9,455	\$ 7,938
Deferred revenue and customer deposits	12,635	12,519
Current portion of:		
Obligations under finance leases (note 9)	1,087	879
Debt (note 10)	3,695	4,143
	26,872	25,479
Non-current liabilities:		
Obligations under finance leases (note 9)	2,326	1,731
Debt (note 10)	51,898	49,009
Deferred tax liabilities (note 15b)	898	657
	55,122	51,397
Total liabilities	81,994	76,876
Shareholders' equity:		
Share capital (note 11)	63,109	63,109
Contributed surplus	543	543
Foreign currency translation reserve	3,222	3,612
Deficit	(23,309)	(23,536)
	43,565	43,728
	\$ 125,559	\$ 120,604

Commitments and contingencies (note 14)

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

Approved on behalf of the Board:

“W. GRANT BALLANTYNE”

“JOEY ST-AUBIN”

# CANLAN ICE SPORTS CORP.

Consolidated Statements of Earnings and Comprehensive Income  
(Expressed in thousands of dollars, except for share and per share amounts)

Years ended December 31, 2016 and 2015

	2016	2015
Revenue:		
Ice rink and recreational facilities (note 19)	\$ 83,079	\$ 79,449
Expenses (note 21):		
Ice rinks and recreational facilities:		
Salaries, wages and benefits	31,608	30,451
Selling and customer service	11,515	11,641
Utilities	8,155	7,756
Cost of goods sold	5,668	5,640
Repairs and maintenance	4,564	4,135
Property tax	3,023	2,987
Facility lease	1,184	1,159
	<u>65,717</u>	<u>63,769</u>
Earnings from ice rink and recreational facilities before the undernoted	17,362	15,680
General and administration expenses (notes 13 and 21)	5,194	4,304
Earnings before the undernoted	12,168	11,376
Other expenses (income) (note 21):		
Depreciation	7,017	6,954
Loss (gain) on sale of assets	(21)	16
Impairment loss (note 6)	-	4,070
Foreign exchange loss (gain)	(474)	1,053
	<u>6,522</u>	<u>12,093</u>
Finance income (costs):		
Finance income	66	62
Finance costs	(2,636)	(2,950)
Fee on settlement of debt (note 10)	(2,318)	-
Gain on financial assets held for trading (note 16)	259	-
	<u>(4,629)</u>	<u>(2,888)</u>
Earnings (loss) before income taxes	1,017	(3,605)
Income tax expense (recovery) (note 15):		
Current	(347)	600
Deferred	70	(603)
	<u>(277)</u>	<u>(3)</u>
<b>Net earnings (loss)</b>	<b>\$ 1,294</b>	<b>\$ (3,602)</b>
Other comprehensive income (loss):		
Items that may be reclassified subsequently to net earnings:		
Foreign currency translation differences	\$ (390)	\$ 3,612
Total comprehensive income	904	10
Basic and fully diluted earnings (loss) per share	\$ 0.10	\$ (0.27)
Weighted average common shares issued for basic and diluted earnings per share calculations	13,337,448	13,337,448

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

# CANLAN ICE SPORTS CORP.

Consolidated Statements of Changes in Equity  
(Expressed in thousands of dollars)

Years ended December 31, 2016 and 2015

	Share capital	Contributed surplus	Foreign currency translation reserve	Deficit	Total
Balance at December 31, 2014	\$ 63,109	\$ 543	\$ -	\$ (18,867)	\$ 44,785
Net loss	-	-	-	(3,602)	(3,602)
Other comprehensive income	-	-	3,612	-	3,612
Dividends to common shareholders	-	-	-	(1,067)	(1,067)
Balance at December 31, 2015	63,109	543	3,612	(23,536)	43,728
Net earnings	-	-	-	1,294	1,294
Other comprehensive loss	-	-	(390)	-	(390)
Dividends to common shareholders	-	-	-	(1,067)	(1,067)
Balance at December 31, 2016	\$ 63,109	\$ 543	\$ 3,222	\$ (23,309)	\$ 43,565

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

# CANLAN ICE SPORTS CORP.

Consolidated Statements of Cash Flows  
(Expressed in thousands of dollars)

Years ended December 31, 2016 and 2015

	2016	2015
Cash provided by (used in):		
Operating:		
Net earnings (loss)	\$ 1,294	\$ (3,602)
Adjustments for:		
Depreciation	7,017	6,954
Loss (gain) on sale of assets	(21)	16
Impairment loss	-	4,070
Net finance costs	4,629	2,888
Deferred income taxes	70	(603)
Foreign exchange (gain) loss	(612)	1,477
Net change in non-cash working capital (note 20)	1,667	1,625
Interest paid (note 10)	(2,835)	(2,903)
Fee on settlement of debt (note 10)	(2,318)	-
Interest received	66	62
	<u>8,957</u>	<u>9,984</u>
Financing:		
Principal repayments of debt	(45,484)	(4,075)
Increase in principal of debt	49,000	2,797
Principal repayments on obligations under finance lease	(1,027)	(781)
Payment of dividends on common shares	(1,067)	(1,067)
	<u>1,422</u>	<u>(3,126)</u>
Investments:		
Net proceeds on sale of assets	21	34
Purchase of recreation property	-	(7,360)
Expenditures on ice rink and recreational facilities	(3,989)	(3,182)
Expenditures on other assets	(73)	(159)
	<u>(4,041)</u>	<u>(10,667)</u>
Effect of changes in foreign currency rates on cash and cash equivalents	<u>(68)</u>	<u>340</u>
Increase (decrease) in cash and cash equivalents	6,270	(3,469)
Cash and cash equivalents, beginning of year	10,065	13,534
Cash and cash equivalents, end of year	<u>\$ 16,335</u>	<u>\$ 10,065</u>

Supplemental cash flow information (note 20)

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

# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2016 and 2015

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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 consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Directors on March 21, 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) 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.

Prior to January 1, 2015, the functional currency of the Company's U.S. subsidiaries was determined to be the Canadian dollar but should have been the U.S. dollar. The impact of this difference on prior years was not material and accordingly the Company corrected the difference in the consolidated financial statements for the year ended December 31, 2015. This resulted in an increase to assets of \$1,080,000 as at January 1, 2015, a decrease to foreign exchange loss of \$144,000 for the year ended December 31, 2015, and an increase to other comprehensive income of \$936,000 for the year ended December 31, 2015.

# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2016 and 2015

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## 2. Basis of preparation (continued):

### (c) 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.

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

The preparation of the consolidated financial statements in conformity with IFRS 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 Consolidated Financial Statements

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

Years ended December 31, 2016 and 2015

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## 2. Basis of preparation (continued):

(d) 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 82% 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:

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

(a) Basis of consolidation:

(i) Subsidiaries:

These consolidated financial statements include the accounts of the Company and the following wholly-owned subsidiaries:

- Les Quatre Glaces (1994) Inc.
- Canlan Ice Sports (USA) Corp.
- P.C. Development Inc.

Subsidiaries are entities controlled by the Company. The statements of financial position of the subsidiaries are included in the consolidated financial statements from the date that control commences. They are de-consolidated from the date that control ceases. The accounting policies of subsidiaries are aligned with those adopted by the Company.

(ii) Transactions eliminated on consolidation:

Intra-Company balances are eliminated in preparing the consolidated financial statements.

# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2016 and 2015

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### 3. Significant accounting policies (continued):

(b) Inventory:

Inventory consists of hockey equipment, supplies and sportswear held for sale, and food and beverage supplies. Inventory is recorded at the lower of cost and estimated net realizable value. The cost of inventory is based on the first-in, first-out principle. Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling expenses.

(c) Property, plant, and equipment:

(i) Recognition and measurement:

Items of property, plant, and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, costs directly attributable to bringing the assets to a working condition for their intended use, and borrowing costs on qualifying assets.

When parts of an item of property, plant, and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant, and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized within gain or loss on sale of assets.

(ii) Subsequent costs:

The cost of replacing a component of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in net earnings as incurred.

(iii) Depreciation:

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognized in net earnings on a straight-line basis over the estimated useful lives of each component of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term or their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2016 and 2015

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### 3. Significant accounting policies (continued):

(c) Property, plant, and equipment (continued):

(iii) Depreciation (continued):

The estimated useful lives for the current and comparative periods are as follows:

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Asset	
Buildings	40 years
Rink board systems	25 years
Refrigeration equipment	20 years
Building improvements	10 years
Leasehold improvements	Shorter of useful life or remaining lease term
Machinery and equipment	10 years
Computers, furniture and fixtures	5 years
Ice resurfacing equipment	5 years

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Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(d) Investment property:

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. Investment property is carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is recognized in net earnings on a straight-line basis over the estimated useful lives of each investment property. The estimated useful lives for the current and comparative periods for investment property are consistent with the estimated useful lives for property, plant and equipment as described in note 3(c)(iii). Investment property comprising land is not depreciated.

(e) Other assets:

Included in other assets are fixed assets located in the Company's corporate offices.

(f) Leased assets:

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognized in the Company's consolidated financial statements.

# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2016 and 2015

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### 3. Significant accounting policies (continued):

(g) Lease payments:

Payments made under operating leases are recognized in net earnings on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for in the period in which they are incurred.

(h) Revenue recognition:

(i) Ice and field time:

Revenue from rental contracts, programs, tournament operations and leagues is measured at the fair value of the consideration received or receivable, net of returns. Revenue is recognized as games and lessons are played and collection is reasonably assured.

(ii) Goods sold:

Revenue from the sale of food and beverage and sports store goods is measured at the fair value of the consideration received or receivable, net of returns. Revenue is recognized when the goods are transferred to the buyer.

(iii) Sponsorship:

Revenue from sponsorship contracts is recognized on a straight-line basis over the term of the contract.

(iv) Management contracts:

The Company's financial results include the revenue and expenses of facilities operated under management contracts where the Company's return is subject to the risks and rewards of operation. For facilities where this is not the case, the Company records only the revenue received in the form of fixed management fees. Revenue from such management contracts is recognized over the term of the contract.

(v) Rental income:

Rental income is recognized in net earnings on a straight-line basis over the term of the lease.

# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2016 and 2015

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### 3. Significant accounting policies (continued):

(i) Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company measures financial instruments and discloses select non-financial assets at fair value at each reporting period.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement or disclosure:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for assets or liability.

(j) Financial instruments:

(i) Non-derivative financial assets:

The Company has the following non-derivative financial assets: loans and receivables. Such financial assets have fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables is comprised of cash and cash equivalents and accounts receivable.

Cash and cash equivalents is comprised of cash balances and deposits with financial institutions and other short-term, highly liquid investments with original maturities of three months or less when acquired, that are readily convertible to cash.

(ii) Non-derivative financial liabilities:

The Company has the following non-derivative financial liabilities: accounts payable and accrued liabilities and debt. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2016 and 2015

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### 3. Significant accounting policies (continued):

(j) Financial instruments (continued):

(iii) Derivative financial instruments:

Derivative instruments are financial contracts whose value is derived from interest rates, foreign exchange rates or other financial or commodity indices. The Company entered into an interest rate swap contract on June 21, 2016 to manage the exposure to market risks from changing interest rates (note 10). This instrument has not been designated as a hedge and is marked to market. The resulting unrealized gains and losses during the period are recorded in net earnings with a corresponding asset or liability recorded on the consolidated statement of financial position. Payments and receipts under the interest rate swap contract are recognized as adjustments to interest expense which are recognized within finance costs. The Company recorded a \$259,000 financial asset held for trading as of December 31, 2016 (2015 – nil).

(k) Earnings per share:

The Company presents basic and diluted earnings per share (“EPS”) data for its common shares. Basic EPS is calculated by dividing the net earnings attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the net earnings attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, if any.

(l) Employee benefits:

(i) Defined contribution plans:

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in net earnings in the period in which services are rendered by employees. On January 1, 2010, the Company established a defined contribution plan for its employees whereby the Company matches contributions to a maximum of 4% of salaries. Included in salaries, wages and benefits within ice rink and recreational facilities and general and administrative expenses is \$349,000 (2015 - \$357,000) in respect of the Company’s contributions.

(ii) Share-based:

The fair value of the amount payable to directors and employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period that the directors and employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as compensation expense in net earnings.

# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2016 and 2015

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### 3. Significant accounting policies (continued):

#### (m) Finance income and finance costs:

Finance income comprises bank interest income and changes in the fair value of financial assets and liabilities at fair value through profit or loss. Interest income is recognized in net earnings as it accrues.

Finance costs comprise interest expense on borrowings and obligations under finance leases, bank charges and changes in the fair value of financial assets and liabilities at fair value through profit or loss.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in net earnings using the effective interest method.

#### (n) Income tax:

Income tax expense comprises current and deferred tax. Current and deferred tax are recognized in net earnings except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2016 and 2015

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### 3. Significant accounting policies (continued):

(o) Impairment:

(i) Financial assets:

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through net earnings.

(ii) Non-financial assets:

The carrying amounts of the Company's property, plant, and equipment and investment properties are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or CGU).

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in net earnings.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements

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### 3. Significant accounting policies (continued):

(p) Segment reporting:

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' results are reviewed regularly by the Company's management to make decisions about resources to be allocated to the segment and assess its performance. Segment results include items directly attributable to a segment.

(q) New standards and interpretations not yet adopted:

(i) 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 performed the five-step analysis in accordance with IFRS 15 on its major revenue streams to assess the potential impact of the new standard. The Company is still in the process of assessing whether certain of its revenue streams should be recognized at a point in time or over time, and the final assessment of this decision will determine the extent to which this standard is expected to have a significant effect on the consolidated financial statements.

(ii) IFRS 9 – *Financial Instruments*, issued in July 2014 replaces IAS 39 – *Financial Instruments: Recognition and Measurement* and deals with classification and measurement of financial assets and financial liabilities. The requirements of IFRS 9 represent a significant change from the existing requirements in IAS 39. The changes will affect the classification and measurement of financial assets and financial liabilities, the rules and requirements relating to hedge accounting as well as impairment of financial assets.

The mandatory effective date of IFRS 9 is January 1, 2018 and is required to be applied retrospectively when initially applied. The Company performed an analysis of its financial assets and liabilities and determined that adoption of this standard is not expected to have a significant effect on the consolidated financial statements of the Company.

(iii) IFRS 16 – *Leases* was issued in January 2016 and sets out a new model for lease accounting, replacing IAS 17 – *Leases*. IFRS 16 will be effective for accounting periods beginning on or after January 1, 2019. The Company is currently assessing the potential impact, if any, on its consolidated financial statements resulting from the application of IFRS 16.

# CANLAN ICE SPORTS CORP.

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## 4. Restricted cash

Cash and cash equivalents include \$381,000 (2015 – nil) 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.

## 5. Inventory:

	2016	2015
Sports store	\$ 754	\$ 735
Food and beverage	384	406
	<u>\$ 1,138</u>	<u>\$ 1,141</u>

The amount of inventory expensed during the year is equal to the amount of cost of goods sold presented in the consolidated statement of earnings and comprehensive income.

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

	Land	Buildings and building improvements	Leasehold improvements	Rink board systems	Refrigeration equipment	Machinery and equipment	Computers, furniture and fixtures	Ice resurfacing equipment	Work in process	Total
<b>Cost</b>										
Balance at December 31, 2014	\$ 15,574	\$ 105,659	\$ 1,896	\$ 4,878	\$ 11,440	\$ 12,067	\$ 9,046	\$ 4,936	\$ 206	\$ 165,702
Reclassification	-	-	-	-	29	-	-	-	(29)	-
Additions	635	7,473	81	276	2,407	628	468	8	163	12,139
Disposals	-	-	-	(141)	(50)	(35)	(6)	(270)	-	(502)
Effect of movements in exchange rates	765	3,329	-	154	591	354	330	100	1	5,624
Balance at December 31, 2015	16,974	116,461	1,977	5,167	14,417	13,014	9,838	4,774	341	182,963
Reclassification	-	28	-	-	91	-	19	-	(138)	-
Additions	-	754	68	264	2,618	577	595	820	123	5,819
Disposals	-	-	-	-	-	-	-	(270)	-	(270)
Effect of movements in exchange rates	(104)	(559)	-	(18)	(77)	(48)	(40)	(11)	-	(857)
Balance at December 31, 2016	\$ 16,870	\$ 116,684	\$ 2,045	\$ 5,413	\$ 17,049	\$ 13,543	\$ 10,412	\$ 5,313	\$ 326	\$ 187,655
<b>Accumulated depreciation and impairment losses</b>										
Balance at December 31, 2014	\$ -	\$ (40,272)	\$ (424)	\$ (2,091)	\$ (6,546)	\$ (7,138)	\$ (7,618)	\$ (3,931)	\$ -	\$ (68,020)
Depreciation for the year	-	(3,828)	(207)	(205)	(646)	(934)	(682)	(295)	-	(6,797)
Impairment loss	-	(3,644)	-	-	-	(426)	-	-	-	(4,070)
Disposals	-	-	-	124	23	34	-	255	-	436
Effect of movements in exchange rates	-	(429)	-	(14)	(46)	(89)	(254)	(49)	-	(881)
Balance at December 31, 2015	-	(48,173)	(631)	(2,186)	(7,215)	(8,553)	(8,554)	(4,020)	-	(79,332)
Depreciation for the year	-	(3,833)	(230)	(217)	(699)	(941)	(537)	(413)	-	(6,870)
Disposals	-	-	-	-	-	-	-	270	-	270
Effect of movements in exchange rates	-	140	-	2	8	23	33	5	-	211
Balance at December 31, 2016	\$ -	\$ (51,866)	\$ (861)	\$ (2,401)	\$ (7,906)	\$ (9,471)	\$ (9,058)	\$ (4,158)	\$ -	\$ (85,721)
<b>Carrying amounts</b>										
Balance at December 31, 2015	\$ 16,974	\$ 68,288	\$ 1,346	\$ 2,981	\$ 7,202	\$ 4,461	\$ 1,284	\$ 754	\$ 341	\$ 103,631
Balance at December 31, 2016	16,870	64,818	1,184	3,012	9,143	4,072	1,354	1,155	326	101,934

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## 6. Property, plant and equipment - facilities (continued):

On January 30, 2015, the Company completed the purchase of a recreation facility in Lake Barrington, Illinois for \$7,121,000 (US\$5,600,000).

For the year ended December 31, 2016, no impairment losses were recognized. For the year ended December 31, 2015, the Company recognized an impairment loss of \$4,070,000 (US\$3,183,000) related to an ice facility in the U.S. The ice facility is considered a cash-generating unit ("CGU") for impairment purposes. In 2015, the actual cash flows from operating the ice facility did not meet management's projections, and accordingly management estimated the recoverable amount of the CGU, which was based on its value in use, utilizing a discounted cash flow model. The estimate of value in use was determined using a pre-tax discount rate of 11% and a terminal growth rate of 2%. Cash flows used in the value in use calculation were based on management's one-year budgeted projections for 2016, and incorporated a 20% annual growth rate for the following four years, and a stabilized growth rate thereafter.

Included in property, plant, and equipment - facilities are assets under finance leases with a cost of \$5,934,000 (2015 - \$4,202,000) and accumulated depreciation of \$1,323,000 (2015 - \$929,000).

## 7. Investment properties:

	Cost	Accumulated amortization	Carrying amount
December 31, 2014	\$ 570	\$ -	\$ 570
Effect of movements in exchange rate	4	-	4
December 31, 2015	\$ 574	\$ -	\$ 574
Effect of movements in exchange rate	(8)	-	(8)
December 31, 2016	\$ 566	\$ -	\$ 566

The fair value of the Company's investment properties, which consist of land parcels, at December 31, 2016 was \$1,703,000 (2015 - \$1,562,000). The Company uses a variety of valuation techniques and makes assumptions that are based on market conditions existing at each reporting period to determine fair value. The Company's investment properties are categorized as Level 3 within the fair value hierarchy. As such, the fair value was determined using valuation techniques incorporating discounted cash flows and expertise of an independent local real estate agent not related to the Company. The cash flows were discounted at a pre-tax rate of 4.17% over the remaining lease term and based on anticipated renewal terms. The independent real estate agent has professional qualifications and experience in the location and category of investment property being valued.

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## 7. Investment properties (continued):

For the years ended December 31, 2016 and 2015, no impairment losses were recognized. In 2016, income earned on investment properties was \$96,000 (2015 - \$93,000) with no direct expenses in 2016 (2015 - nil).

## 8. Accounts payable and accrued liabilities:

Accounts payable and accrued liabilities consist of the following:

	2016	2015
Wages payable	\$ 2,943	\$ 2,355
Trade payables	2,865	2,342
Other accrued liabilities	2,522	2,492
Indirect tax payables	589	491
Income tax payable	479	56
Stock appreciation rights	57	202
	\$ 9,455	\$ 7,938

All current trade and accrued liabilities are interest-free and payable within 12 months.

## 9. Obligations under finance leases:

Total minimum lease payments are as follows:

	2016	2015
Not later than one year	\$ 1,215	\$ 988
Later than one year and not later than five years	2,582	1,939
Later than five years	10	-
	3,807	2,927
Interest (rates vary from 3 % to 7%)	394	317
Present value of minimum finance lease payments	3,413	2,610
Current portion	1,087	879
Long-term portion	\$ 2,326	\$ 1,731

Lease obligations are secured directly by the leased assets.

Interest of \$131,000 (2015 - \$109,000) relating to finance lease obligations has been included in finance costs.

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## 10. Debt:

	Maturity dates	Interest rates	2016	2015
Fixed rate	2018	6.79%	\$ -	\$ 19,500
	2019	5.97%	-	7,957
	2023	3.52%	37,518	-
Variable rate	2018	Prime + 0.75%	-	13,331
	2018	BA + 1.75%	-	3,410
	2023	Prime + 0.50%	9,739	-
	2017	Prime + 0.50%	500	-
	2019	LIBOR + 2.50%	5,636	6,272
	2020	LIBOR + 2.50%	2,593	2,877
			55,986	53,347
Deferred financing costs			(393)	(195)
			55,593	53,152
Current portion			3,695	4,143
Non-current portion			\$ 51,898	\$ 49,009

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 year ended December 31, 2016.

As at December 31, 2016, 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 16) to fix the interest rate at 3.52% per annum payable monthly. At December 31, 2016, the balance outstanding was \$37,518,000;
- \$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 December 31, 2016, the balance outstanding was \$9,739,000;
- \$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 December 31, 2016, the balance outstanding was \$5,636,000 (US\$4,197,000). This loan is denominated in U.S. currency;

# CANLAN ICE SPORTS CORP.

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## 10. Debt (continued):

- \$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 December 31, 2016, the balance outstanding was \$2,593,000 (US\$1,931,000). This loan is denominated in U.S. currency;
- \$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;
- \$3,255,000 seasonal demand revolving operating loan, interest at Prime rate plus 0.50% per annum. Draws from this operating loan will be available from June 1, 2017 and amounts drawn shall be repaid by November 30, 2017. This loan matures on November 30, 2017; and
- \$5,000,000 demand revolving capital expenditure loan amortized over 15 years, interest at Prime rate plus 0.50% per annum. At December 31, 2016, the balance outstanding was \$500,000.

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 \$176,000 (2015 - \$74,000) was recorded in finance costs.

## 11. 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: December 31, 2016 and 2015	13,337,448	\$ 63,109

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On November 28, 2016, the Company declared a quarterly dividend of \$0.02 per share which was paid on January 17, 2017. In addition, the Company paid quarterly dividends of \$0.02 per share on each of April 15, 2016, July 15, 2016, and October 14, 2016 respectively.

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## 12. 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 (2006). 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.

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

	Number of SARs	Weighted average exercise price
Number of SARS outstanding, December 31, 2014	649,835	\$ 2.38
Granted	35,000	3.30
Exercised	(213,398)	2.31
Forfeited	(35,167)	2.30
Number of SARS outstanding, December 31, 2015	436,270	2.50
Granted	562,500	3.34
Exercised	(331,269)	2.37
Balance, December 31, 2016	667,501	\$ 3.27
Exercisable, December 31, 2015	120,434	\$ 2.43
Exercisable, December 31, 2016	35,001	\$ 2.98

The following table summarizes information about the stock appreciation rights outstanding at December 31, 2016:

Exercise price	Rights outstanding			Rights exercisable	
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$ 2.60	11,667	4 months	\$ 2.60	-	\$ 2.60
2.51	35,001	6 months	2.51	11,667	2.51
3.14	23,333	11 months	3.14	11,667	3.14
3.30	35,000	15 months	3.30	11,667	3.30
3.34	562,500	35 months	3.34	-	3.34

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

During the year ended December 31, 2016, the Company recognized compensation expense of \$200,000 (2015 – \$265,000) in respect of the SARs Plan. This amount was calculated in accordance with the fair value method of accounting. At December 31, 2016, the SARs liability included within accounts payable and accrued liabilities was \$57,000 (2015 - \$202,000).

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

	2016	2015
Risk free interest rate	1.06%	0.63%
Expected dividend yield	2.29%	2.48%
Expected lives of rights	4 to 35 months	11 to 27 months
Expected volatility	17% - 20%	14% - 20%

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 4 months to 35 months.

## 13. General and administration expenses:

General and administration expenses consist of the following:

	2016	2015
Salaries, wages and benefits	\$ 3,884	\$ 3,069
Professional and regulatory fees	488	345
Office	342	310
Stock appreciation rights	200	265
Travel	175	229
Other	105	86
	\$ 5,194	\$ 4,304

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## 14. Commitments and contingencies:

- (a) At December 31, 2016, 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:

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Not later than one year	\$	1,168
Later than one year and not later than five years		4,098
Later than five years		8,121

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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 December 31, 2016, the Company has letters of guarantee outstanding with various vendors in the amount of \$1,105,000 (2015 - \$1,005,000).

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## 15. Income taxes:

- (a) The major factors which caused variations from the Company's expected combined Canadian and U.S. income tax rate of 32% for 2016 (2015 - 32%) were as follows:

	2016	2015
Statutory rate applied to earnings before income taxes	\$ 328	\$ (1,169)
Change in deferred tax assets not recognized	(648)	1,732
Foreign currency translation differences	109	(801)
Substantively enacted tax rate change	25	(106)
Permanent differences and other	(91)	341
<b>Income tax recovery</b>	<b>\$ (277)</b>	<b>\$ (3)</b>

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

	2016	2015
<b>Deferred income tax assets:</b>		
Unused tax losses	\$ 383	\$ 78
Deferred revenue	120	127
Properties	579	1,117
Financing fees	488	-
Other	198	275
	1,768	1,597
<b>Deferred income tax liability:</b>		
Properties	(888)	(629)
Financing fees	-	(18)
Other	(10)	(10)
	(898)	(657)
<b>Net deferred income tax assets</b>	<b>\$ 870</b>	<b>\$ 940</b>

The following deferred tax assets have not been recognized as at December 31, 2016 and December 31, 2015:

	2016	2015
U.S. tax losses set to expire between 2018 and 2036	\$ 4,122	\$ 4,910
Tax losses that do not expire	-	15
Deductible temporary differences	61	61
	\$ 4,183	\$ 4,986

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## 16. 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.

In June 2016, the Company entered into an interest rate swap agreement to fix the interest rate on a portion of its debt (note 10). The fair value of this derivative instrument at December 31, 2016 was \$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 year ended December 31, 2016, a gain of \$259,000 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. The fair values of debt included in the statement of financial position is as follows:

	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Debt	\$ 55,593	\$ 54,705	\$ 53,152	\$ 53,732

### (b) Financial risk management:

#### (i) Interest rate risk:

The terms of the Company's outstanding debt are described in note 10. 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 \$185,000 (2015 - \$259,000) per annum.

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## 16. Financial instruments (continued):

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

#### (i) 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 December 31, 2016, the Company has a working capital deficiency of \$5,886,000 (2015 - \$11,056,000).

During the off-peak season, the Company has an available demand revolving operating loan to provide working capital, if necessary (note 10).

At December 31, 2016, the liquidity risk of the Company has improved as a result of the Company refinancing a significant portion of the Company debt over terms extending to 2023.

The following table presents the aggregate amount of future cash outflows for contractual obligations in each of the next five years and thereafter.

in thousands	2017	2018	2019	2020	2021	Thereafter	Total
Accounts payable and accrued liabilities	\$ 9,455	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,455
Long-term debt:							
Mortgage principal and interest	5,550	5,013	9,188	6,134	4,148	35,096	65,129
Equipment leases, including interest	1,215	998	795	526	263	10	3,807
	6,765	6,011	9,983	6,660	4,411	35,106	68,936
Land and building operating leases	1,168	1,183	1,183	880	852	8,121	13,387
	\$ 17,388	\$ 7,194	\$ 11,166	\$ 7,540	\$ 5,263	\$ 43,227	\$ 91,778

#### (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.

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## 16. Financial instruments (continued):

(b) Financial risk management (continued):

(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 December 31, 2016, the Company has US\$6,128,000 debt repayable in U.S. currency (note 10). 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 December 31, 2016, 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 \$411,000 (2015 - \$855,000), respectively.

## 17. 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 December 31, 2016 and 2015, 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 years ended December 31, 2016 and 2015.

# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2016 and 2015

## 18. Related party transactions:

- (a) During the year ended December 31, 2016, the Company expensed \$190,000 (2015 - \$140,000) 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 year ended December 31, 2016 and 2015, 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:

	2016	2015
Short-term employee benefits	\$ 1,805	\$ 1,695
Stock appreciation rights	200	265
Post employment benefits	66	72
	<u>\$ 2,071</u>	<u>\$ 2,032</u>

- (d) Directors and executive officers participate in the Company's stock appreciation rights program (note 12). During the year ended December 31, 2016, the Company paid \$344,000 (2015 - \$227,000) related to stock appreciation rights exercised.

## 19. 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:

	2016	2015
Ice and field sales	\$ 62,831	\$ 60,007
Food and beverage	12,080	11,684
Sports store	1,940	2,012
Tournament operations	2,690	2,452
Sponsorship	1,242	1,243
Space rental	1,150	1,007
Management and consulting fees	466	402
Other	680	642
	<u>\$ 83,079</u>	<u>\$ 79,449</u>

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

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

Years ended December 31, 2016 and 2015

## 19. Segmented information (continued):

(b) Geographic:

	2016			2015		
	Canada	USA	Total	Canada	USA	Total
Revenue	\$ 72,784	\$10,295	\$ 83,079	\$ 70,921	\$ 8,528	\$ 79,449
Non-current assets	83,894	20,679	104,573	84,537	21,644	106,181
Total assets	102,486	23,073	125,559	96,312	24,292	120,604

## 20. Supplemental cash flow information:

	2016	2015
(a) Net changes in non-cash working capital:		
Accounts receivable	\$ (111)	\$ 455
Inventory	3	(104)
Prepaid expenses	74	(159)
Accounts payable and accrued liabilities	1,517	587
Deferred revenue and customer deposits	116	1,186
Effect of change in foreign currency	68	(340)
	\$ 1,667	\$ 1,625
(b) Non-cash transactions:		
Finance lease obligations	\$ 1,830	\$ 1,597

## 21. 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:

	2016	2015
Ice rink and recreational facilities expense	\$ 72,587	\$ 74,636
General and administrative expenses	\$ 5,341	\$ 4,461
Other expenses (income)	\$ (495)	\$ 1,069

The changes in the above table, as compared to the consolidated statement of earnings and comprehensive income, relate to depreciation of \$7,017,000 (2015 - \$6,954,000) being allocated from other expenses to ice rink and recreational facilities in the amount of \$6,870,000 (2015 - \$6,797,000), and to general and administrative expenses in the amount of \$147,000 (2015 - \$157,000). In 2015, an impairment loss of \$4,070,000 was being allocated from other expenses to ice rink and recreational facilities.