



Condensed Consolidated Interim Financial Statements

CANLAN ICE SPORTS CORP.

For period ended September 30, 2018

(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, 2018 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, 2018 (unaudited)	December 31, 2017 (audited)
Assets		
Current assets:		
Cash and cash equivalents (note 4)	\$ 15,961	\$ 18,629
Accounts receivable	2,802	3,051
Inventory	1,090	1,094
Prepaid expenses	1,353	597
	<u>21,206</u>	<u>23,371</u>
Non-current assets:		
Property, plant and equipment – facilities (note 5)	98,868	98,596
Investment properties	557	550
Interest rate swap (note 12a)	1,647	1,286
Deferred tax assets (note 11)	1,748	1,661
Other assets	383	256
	<u>103,203</u>	<u>102,349</u>
	<u>\$ 124,409</u>	<u>\$ 125,720</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 5)	\$ 10,916	\$ 10,105
Deferred revenue and customer deposits	11,888	13,209
Current portion of:		
Obligations under finance leases	814	897
Debt (note 6)	3,222	5,383
	<u>26,840</u>	<u>29,594</u>
Non-current liabilities:		
Obligations under finance leases	1,123	1,444
Debt (note 6)	48,353	48,296
Deferred tax liabilities (note 11)	1,336	1,188
	<u>50,812</u>	<u>50,928</u>
Total liabilities:	77,652	80,522
Shareholders' equity:		
Share capital (note 7)	63,109	63,109
Contributed surplus	543	543
Foreign currency translation reserve	2,639	2,365
Deficit	(19,534)	(20,819)
	<u>46,757</u>	<u>45,198</u>
	<u>\$ 124,409</u>	<u>\$ 125,720</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, 2018		Nine months ended September 30, 2017	
	2018	2017	2018	2017
Revenue:				
Ice rink and recreational facilities (note 15)	\$ 18,272	\$ 17,370	\$ 62,839	\$ 61,133
Expenses (note 17):				
Ice rink and recreational facilities				
Salaries, wages and benefits	7,903	7,780	24,452	24,417
Selling and customer service	2,656	2,844	8,507	8,888
Utilities	1,729	1,919	5,223	5,807
Cost of goods sold	1,082	1,097	4,060	4,138
Repairs and maintenance	1,328	1,227	3,641	3,366
Property tax	846	851	2,581	2,543
Facility lease	290	280	1,048	840
	15,834	15,998	49,512	49,999
Earnings from ice rink and recreational facilities before the undernoted	2,438	1,372	13,327	11,134
General and administration expenses (notes 9 and 17)	1,332	1,144	4,190	3,845
Earnings before the undernoted	1,106	228	9,137	7,289
Other expenses (income) (note 17):				
Depreciation	1,703	1,699	5,153	5,245
Gain on sale of assets	(1)	(1)	(5)	(7)
Foreign exchange loss (gain)	18	17	(27)	27
	1,720	1,715	5,121	5,265
Finance income (costs):				
Finance income	64	22	177	76
Finance costs	(590)	(566)	(1,721)	(1,682)
Gain on interest rate swap (note 12a)	228	542	361	942
	(298)	(2)	(1,183)	(664)
Earnings (loss) before income taxes	(912)	(1,489)	2,833	1,360
Income tax expense (recovery) (note 11)				
Current	(214)	(380)	553	100
Deferred	26	56	61	137
	(188)	(324)	614	237
Net earnings (loss)	(724)	(1,165)	2,219	1,123
Other comprehensive income (loss):				
<i>Items that may be reclassified subsequently to net earnings:</i>				
Foreign currency translation differences	(364)	(452)	274	(894)
Total comprehensive income (loss)	(1,088)	(1,617)	2,493	229
Basic and fully diluted earnings (loss) per share	\$ (0.05)	\$ (0.09)	\$ 0.17	\$ 0.08
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, 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
Net earnings	-	-	-	2,434	2,434
Other comprehensive income	-	-	37	-	37
Dividends to common shareholders	-	-	-	(267)	(267)
Balance at December 31, 2017	\$ 63,109	\$ 543	\$ 2,365	\$ (20,819)	\$ 45,198
Net earnings	-	-	-	2,219	2,219
Other comprehensive income	-	-	274	-	274
Dividends to common shareholders	-	-	-	(934)	(934)
Balance at September 30, 2018	\$ 63,109	\$ 543	\$ 2,639	\$ (19,534)	\$ 46,757

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

	2018	2017
Cash provided by (used in):		
Operations:		
Net earnings	\$ 2,219	\$ 1,123
Adjustments for:		
Depreciation	5,153	5,245
Gain on sale of assets	(5)	(7)
Net finance costs	1,183	664
Deferred income taxes	61	137
Foreign exchange loss (gain)	15	(1)
Net change in non-cash working capital (note 16)	(1,170)	(2,061)
Interest paid	(1,799)	(1,621)
Interest received	177	76
	5,834	3,555
Financing:		
Principal repayments of debt	(9,470)	(2,412)
Increase in principal of debt	7,100	1,750
Principal repayments on obligations under finance lease	(728)	(843)
Payment of dividends on common shares	(867)	(800)
	(3,965)	(2,305)
Investments:		
Net proceeds on sale of assets	5	7
Expenditures on ice rink and recreational facilities (note 5)	(4,460)	(3,302)
Expenditures on other assets	(173)	(54)
	(4,628)	(3,349)
Effect of changes in foreign currency rates on cash and cash equivalents	91	(146)
Decrease in cash and cash equivalents	(2,668)	(2,245)
Cash and cash equivalents, beginning of year	18,629	16,335
Cash and cash equivalents, end of period	\$ 15,961	\$ 14,090

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, 2018 and 2017

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

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, 2017, except as described in note 3. These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 (“IAS 34”), Interim Financial Reporting. Accordingly, certain information and footnote disclosure normally included in annual consolidated 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 consolidated financial statements were authorized for issue by the Board of Directors on November 13, 2018.

(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 presentation currency is the Canadian dollar. The functional currency of the Company’s Canadian entities is the Canadian dollar and for the 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

CANLAN ICE SPORTS CORP.

Notes to Condensed Consolidated Interim Financial Statements
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(Tabular amounts expressed in thousands, except share and per share amounts)

2. Basis of preparation (continued):

(d) Functional and presentation currency (continued):

- 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.

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, programs, and rentals; revenue is recognized over time as games and lessons are played, and as ice or field times are used. 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.

CANLAN ICE SPORTS CORP.

Notes to Condensed Consolidated Interim Financial Statements
Nine months ended September 30, 2018 and 2017

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

2. Basis of preparation (continued):

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

- *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.

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 79% 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:

Effective January 1, 2018, the Company has adopted IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*. Changes to the Company's accounting policies, which are also expected to be reflected in the Company's annual consolidated financial statements as at and for the year ending December 31, 2018, are described below. There was no material impact to the Company's consolidated financial statements upon adoption of these new standards.

(a) IFRS 15 - *Revenue from Contracts with Customers*:

IFRS 15 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers and replaces the existing revenue recognition standards in IFRS. A five-step model is utilized to achieve the core principle: (1) identify the customer contract; (2) identify the contract's performance obligation; (3) determine the transaction price; (4) allocate the transaction price to the performance obligation; and (5) recognize revenue when or as a performance obligation is satisfied. New disclosures are also required.

IFRS 15 was adopted using the cumulative effect method whereby the cumulative effect of the change determined by applying the principles and practices in IFRS 15 for contracts that are incomplete on the date of adoption, if any, is recognized in deficit at January 1, 2018. There was no cumulative effect adjustment required to be recognized at January 1, 2018 to recognize the impact of applying the new revenue standard. The comparative information has not been adjusted and continues to be reported under the accounting standards in effect for those periods.

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Notes to Condensed Consolidated Interim Financial Statements
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(Tabular amounts expressed in thousands, except share and per share amounts)

3. Significant accounting policies (continued):9

(a) IFRS 15 - *Revenue from Contracts with Customers (continued)*:

There was also no material impact on recognized revenue in the period ended September 30, 2018 from the adoption of the new revenue standard.

Certain additional disclosures are required under the new revenue standard to be made in the Company's annual financial statements.

The Company's revised revenue recognition accounting policy is provided below. These revised accounting policies had no significant effect on revenue recognition in any of the revenue sources below.

The Company evaluates all contractual arrangements it enters into and evaluates the nature of the promises it makes, and its rights and obligations under the arrangement, in determining the nature of its performance obligations. Where such performance obligations are determined to be distinct from each other, the consideration the Company expects to be entitled under the arrangement is allocated to each performance obligation based on its relative estimated stand-alone selling price. Performance obligations that are concluded not to be distinct are combined together into a single unit of account. Revenue is recognized at an amount equal to the transaction price allocated to the specific performance obligation as it is satisfied.

The Company's arrangements include some or all of the following sources of revenue:

i) *Ice and field sales*

- Sports league - Customers obtain the benefits of sport leagues service as league games are played (which are scheduled and provided by the Company) over the course of a league season. Revenue is recognized over time as games are played. Invoices are payable during each league season in accordance with a payment schedule with non-refundable deposits paid in advance.
- Instructional sports programs - Customers obtain the benefits of programs service as they attend each session of the instructional programs provided by the Company. Revenue is recognized over time as program sessions are completed. Invoices are payable at the time of program registration.

ii) *Food and beverage* – Customers obtain the benefits of the food and beverage as they receive their orders. Revenue is recognized and amounts are payable at the point when the customers' orders are delivered.

iii) *Sports store* - Customers obtain control of the product at the time of purchase. Revenue is recognized at the point when the customers purchase the product in-store. Customers pay at the time of purchase.

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3. Significant accounting policies (continued):

(a) IFRS 15 - *Revenue from Contracts with Customers (continued)*:

- iv) *Sponsorship* - Customers obtain the benefits of sponsorship and advertising services as sponsorship and advertising material are displayed on and in the Company's digital and physical assets and as promotional events occur. Advertisements are displayed or presented during the contractual period through the duration of the sponsorship campaign and revenue is recognized over time during the contractual period. The duration of each sponsorship campaign is one year or less. Invoices are payable during each sponsorship campaign in accordance with contractual payment terms.
- v) *Space rental* - Tenants obtain the benefits as they use the space provided by the Company. Revenue is recognized over time as the space is being used by the tenants. Invoices are payable at the beginning of each month.
- vi) *Management and consulting fees* - Customers obtain the benefits as the Company provides management/consulting service. Revenue is recognized over time as the management/consulting services are provided. Invoices are payable at the beginning of each month.

(b) IFRS 9 – *Financial Instruments*:

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*, and changes the classification and measurement of financial assets and financial liabilities, the rules and requirements relating to hedge accounting, as well as the introduction of an “expected credit loss” model for the impairment of financial assets.

The adoption of this standard had no significant effect on the consolidated financial statements of the Company and no retrospective adjustments were required.

Financial assets previously classified as loans and receivables (cash and cash equivalents and accounts receivable), as well as financial liabilities previously classified as other financial liabilities (accounts payable and accrued liabilities, and debt) have been reclassified as amortized cost. The carrying value and measurement of the Company's financial instruments at amortized cost remains unchanged. The Company's current process for assessing short-term receivables' lifetime expected credit losses collectively in groups that share similar credit risk characteristics is unadjusted with the adoption of the new impairment model and resulted in no additional impairment allowance.

Financial assets previously classified as held for trading (interest rate swap) have been reclassified as assets measured at fair value through profit and loss (FVPTL). The carrying value and measurement of the Company's financial instruments at FVTPL remain at fair value and changes in fair value during each reporting period are recognized through profit and loss.

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

4. Restricted cash

Cash and cash equivalents include \$380,000 (December 31, 2017 – \$380,000) 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.

5. Property, plant and equipment - facilities:

September 30, 2018	Cost	Accumulated amortization	Net book value
Land	\$ 16,749	\$ -	\$ 16,749
Buildings and building improvements	118,469	58,310	60,159
Leasehold improvements	2,234	1,216	1,018
Rink board systems	5,395	2,782	2,613
Refrigeration equipment	19,990	9,102	10,888
Machinery and equipment	15,635	11,150	4,485
Computers, furniture and fixtures	11,240	9,944	1,296
Ice resurfacing equipment	5,629	4,662	967
Work in progress	693	-	693
	\$ 196,034	\$ 97,166	\$ 98,868

December 31, 2017	Cost	Accumulated amortization	Net book value
Land	\$ 16,649	\$ -	\$ 16,649
Buildings and building improvements	115,637	55,325	60,312
Leasehold improvements	2,054	1,076	978
Rink board systems	5,377	2,613	2,764
Refrigeration equipment	18,396	8,584	9,812
Machinery and equipment	15,163	10,350	4,813
Computers, furniture and fixtures	11,009	9,516	1,493
Ice resurfacing equipment	5,413	4,453	960
Work in process	815	-	815
	\$ 190,513	\$ 91,917	\$ 98,596

During the nine months ended September 30, 2018, the Company completed a building improvement project totalling \$2,043,000, of which \$695,000 was paid in 2018. At September 30, 2018, the remaining balance, which is payable in 2019 and 2020, is non-interest bearing and included within accounts payable and accrued liabilities.

For the nine months ended September 30, 2018 and 2017, no impairment losses were recognized.

CANLAN ICE SPORTS CORP.

Notes to Condensed Consolidated Interim Financial Statements
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(Tabular amounts expressed in thousands, except share and per share amounts)

6. Debt:

	Maturity dates	Interest rates	September 30, 2018	December 31, 2017
Fixed rate	2023	3.52%	\$ 33,938	\$ 35,498
Variable rate	2023	Prime + 0.50%	8,858	9,219
	2023	Prime + 0.50%	2,106	2,183
	2019	LIBOR + 2.50%	-	4,849
	2020	LIBOR + 2.50%	-	2,239
	2023	CDOR + 2.10%	7,061	-
			51,963	53,988
Deferred financing costs			(388)	(309)
			51,575	53,679
Current portion			3,222	5,383
Non-current portion			\$ 48,353	\$ 48,296

As at September 30, 2018, debt consists of six credit facilities, four 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), maturing on May 25, 2023, to fix the interest rate at 3.52% per annum payable monthly. At September 30, 2018, the balance outstanding was \$33,938,000;
- \$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, 2018, the balance outstanding was \$8,858,000;
- \$20,000,000 committed revolving capital expenditure loan amortized over 15 years, maturing on May 25, 2023, interest at Prime rate plus 0.50% per annum. At September 30, 2018, the balance outstanding was \$2,106,000;
- In August 2018, the Company settled two U.S. currency denominated loans totalling \$7,022,000 with a new credit facility of \$7,100,000 denominated in Canadian currency. The new \$7,100,000 loan is amortized over 15 years, maturing on September 30, 2023, interest at CDOR plus 2.1% per annum payable monthly. At September 30, 2018, the balance outstanding was \$7,061,000;
- \$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 are made available from June 1, 2018 and amounts drawn shall be repaid by November 30, 2018. This loan matures on November 30, 2018. No amounts have been drawn on this loan to date.

CANLAN ICE SPORTS CORP.

Notes to Condensed Consolidated Interim Financial Statements
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(Tabular amounts expressed in thousands, except share and per share amounts)

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 \$80,000 (2017 - \$60,000) was recorded in finance costs.

7. Share capital:

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

	Number of Shares	Amount
(a) Authorized:		
500,000,000 common shares of no par value		
(b) Issued and outstanding:		
September 30, 2018 and December 31, 2017	13,337,448	\$ 63,109

On August 9, 2018, the Company declared a quarterly dividend of \$0.025 per share which was paid on October 16, 2018. In addition, the Company paid quarterly dividend of \$0.02 per share on April 17, 2018 and \$0.025 per share on July 17, 2018.

8. Stock-based compensation:

In 2005, the Company established a Stock Appreciation Rights plan (the SARs Plan) 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.

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(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, 2017	661,418	3.44
Granted	87,750	4.44
Exercised	(82,917)	3.39
Forfeited	(35,167)	3.34
Balance, September 30, 2018	631,084 \$	3.59
Exercisable, December 31, 2017	134,737 \$	3.34
Exercisable, September 30, 2018	98,499 \$	3.45

The following table summarizes information about the stock appreciation rights outstanding at September 30, 2018:

Exercise price	Rights outstanding			Rights exercisable		
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price	
\$ 3.34	415,001	14 months	\$ 3.34	75,165	\$ 3.34	
\$ 3.85	35,000	19 months	\$ 3.85	11,667	\$ 3.85	
\$ 3.74	58,333	21 months	\$ 3.74	11,667	\$ 3.74	
\$ 3.96	35,000	26 months	\$ 3.96	-	\$ 3.96	
\$ 3.95	35,000	30 months	\$ 3.95	-	\$ 3.95	
\$ 4.76	52,750	36 months	\$ 4.76	-	\$ 4.76	

During the nine months ended September 30, 2018, the Company recognized compensation expense of \$364,000 (2017 – \$130,000) in respect of the SARs Plan. This amount was calculated in accordance with the fair value method of accounting. At September 30, 2018 the SARs liability included within accounts payable and accrued liabilities was \$437,000 (December 31, 2017 - \$140,000).

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

	September 30, 2018	September 30, 2017
Risk free interest rate	2.29%	1.73%
Expected dividend yield	1.96%	2.12%
Expected lives of rights	14 to 35 months	2 to 33 months
Expected volatility	12% - 16%	6% - 15%

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 14 months to 35 months.

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Nine months ended September 30, 2018 and 2017

(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,	
	2018	2017
Salaries, wages and benefits	\$ 2,962	\$ 2,884
Professional and regulatory fees	360	289
Stock appreciation rights	364	130
Office	308	267
Travel	98	200
Other	98	75
	\$ 4,190	\$ 3,845

10. Commitments and contingencies:

- (a) At September 30, 2018, 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	\$ 1,194
Later than one year and not later than five years	3,522
Later than five years	6,630

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) 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.
- (ii) A two-pad rink facility in British Columbia with a lease term that ends on December 31, 2024.
- (iii) 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.
- (iv) A two-pad rink facility in Ontario with a lease term that ends on January 31, 2020.
- (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, 2018, the Company has letters of guarantee outstanding with various vendors in the amount of \$1,105,000 (December 31, 2017 - \$1,105,000).

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11. Income taxes:

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

	September 30, 2018	December 31, 2017
Deferred income tax assets:		
Unused tax losses	\$ 295	\$ 311
Deferred revenue	65	113
Properties	891	656
Financing fees	259	360
Other	238	221
	1,748	1,661
Deferred income tax liability:		
Properties	\$ (884)	\$ (771)
Other	(452)	(417)
	(1,336)	(1,188)
Net deferred income tax assets	\$ 412	\$ 473

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 interest rate swap. 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, 2018.

In June 2016, the Company entered into an interest rate swap agreement (seven year term) to fix the interest rate on a portion of its debt (note 6). The fair value of this derivative instrument at September 30, 2018 was \$1,647,000 and has been presented as interest rate swap on the statement of financial position. Changes in fair value of the instrument are recognized in net earnings. For the period ended September 30, 2018, a gain of \$361,000 was recognized. The interest rate swap is classified as Level 2 in the fair value hierarchy. Debt is also categorized as Level 2 within the fair value hierarchy.

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12. Financial instruments (continued):

(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 \$180,000 (December 31, 2017 - \$185,000) per annum.

(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, 2018, the Company has a working capital deficiency of \$5,634,000 (December 31, 2017 - \$6,223,000). 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. 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 of September 30, 2018, the Company has no outstanding loan denominated in the U.S. dollar.

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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 maintain a financial position suitable for supporting the Company's growth strategies and provide an adequate return to shareholders; and
- (d) To return excess cash to shareholders through payment of dividends.

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 complies with covenant criteria established by its lenders. These include tangible net worth and debt coverage ratio measurements. As at September 30, 2018 and December 31, 2017, 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, 2018.

14. Related party transactions:

- (a) During the nine months ended September 30, 2018, the Company expensed \$155,000 (2017 - \$132,000) in directors' fees.
- (b) The Company's majority shareholder is Bartrac Investments Ltd. ("Bartrac"). One of the Company's Directors is also a Director of Bartrac. During the nine months ended September 30, 2018 and 2017, 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,	
	2018	2017
Short-term employee benefits	\$ 1,293	\$ 1,396
Stock appreciation rights	364	130
Post employment benefits	49	52
	<u>\$ 1,706</u>	<u>\$ 1,578</u>

- (d) Directors and executive officers participate in the Company's stock appreciation rights program (note 8). During the nine months ended September 30, 2018, the Company paid \$67,000 (2017 - \$ 58,000) 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,	
	2018	2017
Ice and field sales	\$ 49,479	\$ 48,425
Food and beverage	9,429	8,882
Sports store	1,266	1,402
Space rental	1,046	958
Sponsorship	972	857
Management and consulting fees	198	203
Other	449	406
	\$ 62,839	\$ 61,133

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

(b) Geographic

	Nine months ended September 30, 2018			2017		
	Canada	USA	Total	Canada	USA	Total
Revenue	\$ 55,575	\$ 7,264	\$ 62,839	\$ 53,929	\$ 7,204	\$ 61,133

	September 30, 2018			December 31, 2017		
	Canada	USA	Total	Canada	USA	Total
Non-current assets	\$ 83,564	\$ 19,639	\$ 103,203	\$ 83,241	\$ 19,108	\$ 102,349
Total assets	\$ 102,475	\$ 21,934	\$ 124,409	\$ 103,688	\$ 22,032	\$ 125,720

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16. Supplemental cash flow information:

	Nine months ended September 30,	
	2018	2017
(a) Net changes in non-cash working capital:		
Accounts receivable	\$ 249	\$ 630
Inventory	4	(36)
Prepaid expenses	(756)	(940)
Accounts payable and accrued liabilities	745	(1,473)
Deferred revenue and customer deposits	(1,321)	(388)
Effect of change in foreign currency	(91)	146
	\$ (1,170)	\$ (2,061)

(b) Non-cash transactions:		
Finance lease obligations	\$ 324	\$ -

(c) Changes in liabilities arising from financing activities:

	December 31, 2017	Cash flow changes	Non-cash changes		September 30, 2018
			Foreign exchange movement	Other	
Debt	\$ 53,679	\$ (2,370)	\$ 346	\$ (80)	\$ 51,575
Obligations under finance leases	2,341	(404)	-	-	1,937
Dividends payable	267	66	-	-	333
	\$ 56,287	\$ (2,708)	\$ 346	\$ (80)	\$ 53,845

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,	
	2018	2017
Ice rink and recreational facilities expense	\$ 54,586	\$ 55,160
General and administrative expenses	\$ 4,269	\$ 3,929
Other income	\$ (32)	\$ 20

The changes in the above table, as compared to the consolidated statement of earnings and comprehensive income, relate to depreciation of \$5,153,000 (2017 - \$5,245,000) being allocated from other expenses to ice rink and recreational facilities in the amount of \$5,074,000 (2017 - \$5,161,000), and to general and administrative expenses in the amount of \$79,000 (2017 - \$84,000).