



Condensed Consolidated Interim Financial Statements

CANLAN ICE SPORTS CORP.

For period ended September 30, 2019

(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, 2019 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 Positions
(Expressed in thousands)

	September 30, 2019 (unaudited)	December 31, 2018 (audited)
Assets		
Current assets:		
Cash and cash equivalents (note 4)	\$ 14,681	\$ 19,845
Accounts receivable	2,720	3,361
Loan receivable - current (note 5)	70	-
Inventory	962	1,099
Prepaid and other expenses	2,093	1,101
	<u>20,526</u>	<u>25,406</u>
Non-current assets:		
Property, plant and equipment (note 6 and 7)	105,201	99,582
Assets held-for-sale (note 8)	6,405	596
Interest rate swap	397	1,077
Loan receivable - non-current (note 5)	2,507	-
Deferred tax assets (note 14)	3,562	1,694
Other assets	970	580
	<u>119,042</u>	<u>103,529</u>
	<u>\$ 139,568</u>	<u>\$ 128,935</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 10,106	\$ 12,567
Deferred revenue and customer deposits	11,715	12,881
Current portion of:		
Lease payable - right-of-use assets (note 7)	1,366	777
Debt (note 9)	3,830	3,195
	<u>27,017</u>	<u>29,420</u>
Non-current liabilities:		
Lease payable - right-of-use assets (note 7)	6,061	937
Debt (note 9)	55,365	47,616
Deferred tax liabilities (note 14)	2,447	1,138
	<u>63,873</u>	<u>49,691</u>
Total liabilities	90,890	79,111
Shareholders' equity:		
Share capital (note 10)	63,109	63,109
Contributed surplus	543	543
Foreign currency translation reserve	2,988	3,775
Deficit	(17,962)	(17,603)
	<u>48,678</u>	<u>49,824</u>
	<u>\$ 139,568</u>	<u>\$ 128,935</u>

Commitments and contingencies (note 13)

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

Approved on behalf of the Board:

/s/ W. Grant Ballantyne

/s/ Joey St-Aubin

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, 2019		Nine months ended September 30, 2018	
	2019	2018	2019	2018
Revenue:				
Ice rink and recreational facilities (note 18)	\$ 18,600	\$ 18,272	\$ 64,384	\$ 62,839
Expenses (note 20):				
Ice rink and recreational facilities:				
Salaries, wages and benefits	7,856	7,903	24,748	24,452
Selling and customer service	3,118	2,656	9,896	8,507
Utilities	1,709	1,729	5,090	5,223
Cost of goods sold	1,031	1,082	4,047	4,060
Repairs and maintenance	2,104	1,328	4,886	3,641
Property tax	916	846	2,839	2,581
Facility lease (note 3a)	-	290	-	1,048
	16,734	15,834	51,506	49,512
Earnings from ice rink and recreational facilities before the undernoted	1,866	2,438	12,878	13,327
General and administration expenses (notes 12 and 20)	1,183	1,332	4,134	4,190
Earnings before the undernoted	683	1,106	8,744	9,137
Other expenses (income) (note 20):				
Depreciation	1,942	1,703	5,966	5,153
Gain on sale of assets (note 8)	(1,201)	(1)	(1,601)	(5)
Foreign exchange (gain) loss	(12)	18	30	(27)
	729	1,720	4,395	5,121
Finance income (costs):				
Finance income	64	64	230	177
Finance costs	(747)	(590)	(2,173)	(1,721)
Gain (loss) on interest rate swap (note 15a)	26	228	(680)	361
	(657)	(298)	(2,623)	(1,183)
Earnings (loss) before income taxes	(703)	(912)	1,726	2,833
Income tax expense (recovery) (note 14)				
Current	(377)	(214)	268	553
Deferred	(79)	26	(200)	61
	(456)	(188)	68	614
Net earnings (loss)	(247)	(724)	1,658	2,219
Other comprehensive income (loss):				
<i>Items that may be reclassified subsequently to net earnings:</i>				
Foreign currency translation differences	422	(364)	(787)	274
Total comprehensive income (loss)	175	(1,088)	871	2,493
Basic and fully diluted earnings (loss) per share	\$ (0.02)	\$ (0.05)	\$ 0.12	\$ 0.17
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, 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
Net earnings	-	-	-	2,264	2,264
Other comprehensive income	-	-	1,136	-	1,136
Dividends to common shareholders	-	-	-	(333)	(333)
Balance at December 31, 2018	\$ 63,109	\$ 543	\$ 3,775	\$ (17,603)	\$ 49,824
Balance at January 1, 2019, as previously reported	\$ 63,109	\$ 543	\$ 3,775	\$ (17,603)	\$ 49,824
Impact of change in accounting policy (note 3)				\$ (983)	(983)
Adjusted balance at January 1, 2019	\$ 63,109	\$ 543	\$ 3,775	\$ (18,586)	\$ 48,841
Net earnings	-	-	-	1,658	1,658
Other comprehensive loss	-	-	(787)	-	(787)
Dividends to common shareholders	-	-	-	(1,034)	(1,034)
Balance at September 30, 2019	\$ 63,109	\$ 543	\$ 2,988	\$ (17,962)	\$ 48,678

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

	2019	2018
Cash provided by (used in):		
Operations:		
Net earnings	\$ 1,658	\$ 2,219
Adjustments for:		
Depreciation	5,966	5,153
Gain on sale of assets	(1,601)	(5)
Net finance costs	2,623	1,183
Deferred income taxes	(200)	61
Foreign exchange (gain) loss	(120)	15
Net change in non-cash working capital (note 19)	(3,755)	(1,170)
Interest paid	(2,111)	(1,799)
Interest received	230	177
	2,690	5,834
Financing:		
Principal repayments of debt	(2,678)	(9,470)
Increase in principal of debt	11,000	7,100
Principal repayments on obligations under lease	(1,234)	(728)
Payment of dividends on common shares	(1,000)	(867)
	6,088	(3,965)
Investments:		
Net proceeds on sale of assets	8,656	5
Increase in loan receivable on sale of assets (note 5)	(2,589)	-
Principal payments received on loan receivable	6	-
Purchase of ice rink property (note 6)	(13,302)	-
Expenditures on ice rink and recreational facilities	(6,089)	(4,460)
Expenditures on other assets	(504)	(173)
	(13,822)	(4,628)
Effect of changes in foreign currency rates on cash and cash equivalents	(120)	91
Decrease in cash and cash equivalents	(5,164)	(2,668)
Cash and cash equivalents, beginning of year	19,845	18,629
Cash and cash equivalents, end of period	\$ 14,681	\$ 15,961

Supplemental cash flow information (note 19)

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, 2019 and 2018

(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, 2018, 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, 2019.

(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

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- 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.
- *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.

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

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 75% 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:

- (a) Effective January 1, 2019, the Company has adopted IFRS 16 *Leases*, which was issued in January 2016 and sets out a new model for lease accounting, replacing IAS 17 – *Leases*. 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, 2019, are described below.

The Company adopted IFRS 16 using the modified retrospective approach. Therefore, the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The Company has identified lease contracts related to property leases, for which recognition will change under IFRS 16. The recognition of leased assets and their related liabilities will increase earnings from ice rinks and recreational facilities before depreciation and amortization, with a corresponding combined increase in depreciation, amortization and financial costs.

Based on management's assessment, as at January 1, 2019, property, plant and equipment increased by approximately \$5,295,000, total liabilities increased by approximately \$6,637,000, net deferred tax assets increased by approximately \$359,000 and deficit increased by \$983,000. If the Company had applied IFRS 16 effective January 1, 2018, property, plant and equipment would have increased by approximately \$6,043,000, total liabilities, by approximately \$7,544,000, net deferred tax assets, by approximately \$401,000 and deficit would have been increased by \$1,100,000.

Lease policy applicable from January 1, 2019:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

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- the contract involves the use of an identified asset;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand alone-prices.

The Company recognizes a right-of-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use asset is periodically reduced by impairment losses.

The lease liability is initially measured at the present value of future lease payments discounted using an implicit interest rate or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets:

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Company recognizes the lease payments associated with these leases in net earnings on a straight-line basis over the lease term.

Lease policy applicable before January 1, 2019 is disclosed in note 3 of the Company's consolidated financial statements for the year ended December 31, 2018.

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Nine months ended September 30, 2019 and 2018

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

(b) IFRS 3 amendments – *Clarifying What is a Business* was issued in October 2018 and effective as of January 2020. This amendment provides guidance to assist entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. The amendments include an election to use a concentration test which is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets.

The Company has early-adopted these amendments on January 1, 2019. As a result of this adoption, the Company has elected to use the concentration test to determine the type of acquisition of a property purchased on March 19, 2019 (note 6).

4. Restricted cash

Cash and cash equivalents include \$880,000 (2018 – \$880,000) 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 and a lease agreement with a third party. These funds are maintained as operating and capital expenditure reserves and the balance will change as reserve requirements are adjusted.

5. Loan Receivable

On August 20, 2019, the Company completed the sale of a recreation facility in Fort Wayne, Indiana for proceeds of US\$5,950,000. A combination of cash and a promissory note of US\$1,950,000 were received in consideration of the proceeds of disposition. This financial instrument is amortized over 20 years, matures on August 20, 2024, and bears interest at 5.97% per annum payable monthly. In accordance with IFRS 9 - *Financial Instruments*, it is classified and accounted for at amortized cost and is categorized as Level 2 within the fair value hierarchy (note 15a). At inception, the loan receivable was measured at its fair value of \$2,589,000 (US\$1,950,000) at 5.97%, a rate based on the credit risk of the borrower. At September 30, 2019, the current portion of the loan receivable outstanding was \$70,000, and the non-current portion was \$2,507,000.

This loan receivable is secured by a second mortgage on the property sold.

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Notes to Condensed Consolidated Interim Financial Statements
 Nine months ended September 30, 2019 and 2018

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

6. Property, plant and equipment:

September 30, 2019	Cost	Accumulated amortization	Net book value
Land	\$ 20,490	\$ 1,370	\$ 19,120
Buildings and building improvements	118,674	57,790	60,884
Leasehold improvements	2,486	1,404	1,082
Rink board systems	4,821	2,743	2,078
Refrigeration equipment	20,149	9,052	11,097
Machinery and equipment	16,830	10,247	6,583
Computers, furniture and fixtures	10,275	8,824	1,451
Ice resurfacing equipment	5,869	4,673	1,196
Work in progress	1,710	-	1,710
	\$ 201,304	\$ 96,103	\$ 105,201

December 31, 2018	Cost	Accumulated amortization	Net book value
Land	\$ 16,898	-	\$ 16,898
Buildings and building improvements	119,474	59,619	59,855
Leasehold improvements	2,274	1,263	1,011
Rink board systems	5,424	2,844	2,580
Refrigeration equipment	21,261	9,309	11,952
Machinery and equipment	16,226	11,478	4,748
Computers, furniture and fixtures	11,357	10,125	1,232
Ice resurfacing equipment	5,656	4,780	876
Work in process	430	-	430
	\$ 199,000	\$ 99,418	\$ 99,582

Property, plant and equipment comprise owned and leased assets as follow:

	September 30, 2019
Property, plant and equipment owned	\$ 97,608
Right-of-use property, plant and equipment leased (note 7)	7,593
	\$ 105,201

On March 19, 2019, the Company completed the purchase of an ice rink facility in Chicago, Illinois for US\$10,000,000. The purchase was financed with a combination of cash reserves and a capital expenditure credit facility (note 9). The Company has early-adopted the amendments to IFRS 3 – *Business Combinations* and used the concentration test to account for this transaction. Accordingly, this acquisition does not constitute a business combination and has been accounted for as a purchase of assets since substantially all the fair value of the assets acquired is concentrated in a single identifiable group of assets.

During the period ended September 30, 2019, two of the Company's recreation properties with net book value totaling \$12,757,000 were reclassified from property, plant and equipment and presented as assets held-for-sale in accordance with presentation provisions of IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*. One of these recreation properties was sold on August 20, 2019 (note 8).

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Nine months ended September 30, 2019 and 2018

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

For the nine months ended September 30, 2019 and 2018, no impairment losses were recognized in property, plant and equipment.

7. Right-of-use assets:

(a) The Company has the following right-of-use assets:

	Equipment	Land	Building	Total
January 1, 2019	\$ 2,857	\$ 2,688	\$ 2,607	\$ 8,152
Addition	291			291
Depreciation	(288)	(78)	(484)	(850)
September 30, 2019	\$ 2,860	\$ 2,610	\$ 2,123	\$ 7,593

(b) Right-of-use assets are financed with the following leases payable:

	September 30, 2019
Maturity analysis – contractual undiscounted cash flows	
Less than one year	\$ 1,778
One to five years	3,956
More than five years	6,046
Total undiscounted lease liabilities	\$ 11,780
Lease liability included in the statements of financial position	\$ 7,427
Current	\$ 1,366
Non-current	\$ 6,061

(c) The following reconciliation to the opening balance for lease liabilities as at January 1, 2019 is based upon the operating lease commitments as at December 31, 2018:

Operating lease commitments at December 31, 2018	\$ 11,099
Discounted using implicit/incremental borrowing rates	3% - 7%
Finance lease liabilities recognized as at December 31, 2018	\$ 6,657
Previously recognized finance lease	1,714
Lease liabilities as at January 1, 2019	\$ 8,371

During the period ended September 30, 2019, interest expense related to lease liability – right-of-use asset was \$341,000.

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Nine months ended September 30, 2019 and 2018

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

8. Assets held-for-sale:

	Cost	Accumulated amortization	Carrying amount
December 31, 2018	\$ 596	\$ -	\$ 596
Effect of movements in exchange rate	189	100	89
Reclassified from property, plant and equipment - facilities	28,087	15,327	12,760
Disposals	(14,079)	(7,039)	\$ (7,040)
September 30, 2019	\$ 14,793	\$ 8,388	\$ 6,405

The Company's assets held-for-sale consist of land parcels and a recreation property that were held-for-sale as at September 30, 2019 and are expected to be sold within twelve months. During the period ended September 30, 2019, two of the Company's recreation properties were reclassified from property, plant and equipment and presented as assets held-for-sale in accordance with presentation provisions of IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*. During the period, two land parcels were sold for total cash consideration of \$697,000. In addition, the Company completed the sale of one recreation property located in Fort Wayne, Indiana, for proceeds of \$7,908,000 (US\$5,950,000) (note 5). Included in other income in the statement of earnings and comprehensive income was a gain on sale of assets of \$1,601,000, of which, \$1,526,000 related to the gain on sale of assets held-for-sale. The Company's assets held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell and are categorized as Level 2 within the fair value hierarchy. No impairment loss was recognized on the initial classifications as held-for-sale.

9. Debt:

	Maturity dates	Interest rates	September 30, 2019	December 31, 2018
Fixed rate	2023	3.52%	\$ 31,795	\$ 33,408
Variable rate	2023	Prime + 0.50%	8,403	8,744
	2023	Prime + 0.50%	2,006	2,080
	2023	BA + 2.10%	10,705	-
	2023	CDOR + 2.10%	6,587	6,942
			59,496	51,174
Deferred financing costs			(301)	(363)
			59,195	50,811
Current portion			3,830	3,195
Non-current portion			\$ 55,365	\$ 47,616

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Notes to Condensed Consolidated Interim Financial Statements
Nine months ended September 30, 2019 and 2018

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

As at September 30, 2019, debt consists of five 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 BA rate plus 2.10% per annum payable monthly. The Company entered into an interest rate swap contract (note 15a), maturing on May 25, 2023, to fix the interest rate at 3.52% per annum payable monthly. At September 30, 2019, the balance outstanding was \$31,795,000;
- \$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, 2019, the balance outstanding was \$8,403,000;
- \$20,000,000 revolving capital expenditure loan amortized over 15 years, maturing on May 25, 2023. At September 30, 2019, there was a balance outstanding of \$12,711,000. Of this balance, \$2,006,000 accrues interest at Prime rate plus 0.50% per annum, and \$10,705,000 accrues interest at BA rate plus 2.10% per annum. During the nine months ended September 30, 2019, the Company drew \$11,000,000 to finance the acquisition of an ice rink property (note 6);
- \$7,100,000 loan amortized over 15 years, maturing on September 30, 2023, interest at CDOR plus 2.1% per annum payable monthly. At September 30, 2019, the balance outstanding was \$6,587,000; and
- \$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.

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 \$62,000 (2018 - \$80,000) was recorded in finance costs.

10. 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, 2019 and December 31, 2018	13,337,448	\$ 63,109

On August 13, 2019, the Company declared a quarterly dividend of \$0.0275 per share which was paid on October 15, 2019. In addition, the Company paid quarterly dividends of \$0.025 per share on April 16, 2019 and July 16, 2019.

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11. 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.

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

	Number of SARs	Weighted average exercise price
Number of SARs outstanding, December 31, 2018	566,585	\$3.62
Exercised	(38,667)	3.53
Balance, September 30, 2019	527,918	\$3.63
Exercisable, December 31, 2018	215,585	\$3.42
Exercisable, September 30, 2019	241,168	\$3.58

The following table summarizes information about the stock appreciation rights outstanding at September 30, 2019:

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	323,502	2 months	\$ 3.34	153,585	\$ 3.34
\$ 3.85	35,000	7 months	\$ 3.85	23,333	\$ 3.85
\$ 3.74	58,333	9 months	\$ 3.74	35,000	\$ 3.74
\$ 3.96	23,333	14 months	\$ 3.96	-	\$ 3.96
\$ 3.95	35,000	18 months	\$ 3.95	11,667	\$ 3.95
\$ 4.76	52,750	23 months	\$ 4.76	17,583	\$ 4.76

During the nine months ended September 30, 2019, the Company recognized compensation expense of \$150,000 (2018 – \$364,000) in respect of the SARs Plan. This amount was calculated in accordance with the fair value method of accounting. At September 30, 2019, the SARs liability included within accounts payable and accrued liabilities was \$560,000 (December 31, 2018 - \$468,000).

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

	September 30, 2019	September 30, 2018
Risk free interest rate	1.46%	2.29%
Expected dividend yield	2.08%	1.96%
Expected lives of rights	2 to 23 months	14 to 35 months
Expected volatility	7% - 20%	12% - 16%

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Risk free interest rate is the Government of Canada long-term bond rate. Expected dividend yield assumes a continuation of the most recent dividend payment for the quarterly dividends. Expected lives of rights is based on historical experience of rights being exercised. Expected volatility is based on the historical share price volatility over the past 2 months to 23 months.

12. General and administration expenses:

General and administration expenses consist of the following:

	Nine months ended September 30,	
	2019	2018
Salaries, wages and benefits	\$ 2,911	\$ 2,962
Office	444	308
Professional and regulatory fees	326	360
Travel	192	98
Stock appreciation rights	150	364
Other	111	98
	<u>\$ 4,134</u>	<u>\$ 4,190</u>

13. Commitments and contingencies:

- (a) 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.
- (b) At September 30, 2019, the Company has letters of guarantee outstanding with various vendors in the amount of \$1,105,000 (December 31, 2018 - \$1,105,000).

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14. Income taxes:

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

	September 30, 2019	As reported December 31, 2018	IFRS 16 Adoption (note 3)	January 1, 2019
Deferred income tax assets:				
Unused tax losses	\$ 617	\$ 438	\$ -	\$ 438
Deferred revenue	-	70	-	70
Properties	2,489	656	1,775	2,431
Financing fees	127	225	-	225
Other	329	305	-	305
	3,562	1,694	1,775	3,469
Deferred income tax liability:				
Deferred revenue	\$ (27)	\$ -	\$ -	\$ -
Properties	(2,224)	(760)	(1,416)	(2,176)
Other	(196)	(378)	-	(378)
	(2,447)	(1,138)	(1,416)	(2,554)
Net deferred income tax assets	\$ 1,115	\$ 556	\$ 359	\$ 915

15. Financial instruments:

(a) Fair value:

The Company has the following financial instruments:

	Accounting classification	Fair value level
Financial assets not measured at fair value:		
Cash and cash equivalents (i)	Amortized cost	2
Accounts and loan receivable (i)	Amortized cost	2
Financial assets measured at fair value:		
Interest rate swap (iii)	Financial assets at FVTPL	2
Financial liabilities not measured at fair value:		
Accounts payable and accrued liabilities (i)	Amortized cost	2
Debt (ii)	Amortized cost	2

(i) 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 August 2019, the Company issued a promissory note as part of the proceeds of disposition of a recreation facility in Fort Wayne, Indiana (notes 5 and 8). The loan is classified as amortized cost presented as current and non-current loan receivable on the statement of financial position. At September 30, 2019, the loan receivable balance outstanding was \$2,577,000 (US\$1,946,000).

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- (ii) Debt is of a long-term nature and 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, 2019.
 - (iii) 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 9). The fair value of this derivative instrument 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, 2019, a loss of \$680,000 (gain of \$361,000 in 2018) was recognized.
- (b) Financial risk management:
- (i) Interest rate risk:

The terms of the Company's outstanding debt are described in note 9. 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 \$277,000 (December 31, 2018 - \$178,000) 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. 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. 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, 2019, the Company has a working capital deficiency of \$6,491,000 (December 31, 2018 - \$4,014,000). During the off-peak season, the Company has an available demand revolving operating loan to provide working capital, if necessary (note 9).
 - (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 and loans receivable. Effective collection management procedures and monitoring of credit risk of amounts receivable are core control procedures of the Company. In addition, a subordinated charge on real property has been obtained as security related to a loan receivable from a third party. Appropriate provisions, if required, 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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(iv) Currency risk:

The Company is exposed to currency risk on sales, purchases, and amounts receivable 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 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 has not entered into forward contracts to mitigate this risk; however, cash generated from U.S. business activities is used to service working capital needs of U.S. operations. As at September 30, 2019, the Company has a loan receivable denominated in U.S. dollars (note 5).

16. 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 is required to comply with covenant criteria established by its lenders. These include tangible net worth and debt coverage ratio measurements. As at September 30, 2019 and December 31, 2018, 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, 2019.

17. Related party transactions:

- (a) During the nine months ended September 30, 2019, the Company expensed \$169,000 (2018 - \$155,000) 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, 2019 and 2018, there were no related party transactions between the Company and Bartrac.

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- (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,	
	2019	2018
Short-term employee benefits	\$ 1,422	\$ 1,293
Stock appreciation rights	150	364
Post employment benefits	50	49
	<u>\$ 1,622</u>	<u>\$ 1,706</u>

- (d) Directors and executive officers participate in the Company's stock appreciation rights program (note 11). During the nine months ended September 30, 2019, the Company paid \$58,000 (2018 - \$67,000) related to stock appreciation rights exercised.

18. 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,	
	2019	2018
Ice and field sales	\$ 51,062	\$ 49,479
Food and beverage	9,315	9,429
Sports store	1,106	1,266
Sponsorship	1,083	972
Space rental	1,170	1,046
Management and consulting fees	199	198
Other	449	449
	<u>\$ 64,384</u>	<u>\$ 62,839</u>

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

- (b) Geographic

	Nine months ended September 30, 2019			2018		
	Canada	USA	Total	Canada	USA	Total
Revenue	\$ 55,485	\$ 8,899	\$ 64,384	\$ 55,575	\$ 7,264	\$ 62,839

	September 30, 2019			December 31, 2018		
	Canada	USA	Total	Canada	USA	Total
Non-current assets	\$ 90,572	\$ 28,470	\$ 119,042	\$ 82,842	\$ 20,687	\$ 103,529
Total assets	\$ 101,188	\$ 38,380	\$ 139,568	\$ 104,262	\$ 24,673	\$ 128,935

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19. Supplemental cash flow information:

	Nine months ended September 30,	
	2019	2018
(a) Net changes in non-cash working capital:		
Accounts receivable	\$ 641	\$ 249
Inventory	137	4
Prepaid and other expenses	(992)	(756)
Accounts payable and accrued liabilities	(2,495)	745
Deferred revenue and customer deposits	(1,166)	(1,321)
Effect of change in foreign currency	120	(91)
	<u>\$ (3,755)</u>	<u>\$ (1,170)</u>

(b) Non-cash transactions:		
Finance lease obligations	\$ 291	\$ 324

(c) Changes in liabilities arising from financing activities:

	December 31, 2018	Cash flow changes	Non-cash changes	September 30, 2019
Debt	\$ 50,811	\$ 8,322	\$ 62	\$ 59,195
Lease payable - right-of-use assets (note 7c)	8,371	(944)	-	7,427
Dividends payable	333	34	-	367
	<u>\$ 59,515</u>	<u>\$ 7,412</u>	<u>\$ 62</u>	<u>\$ 66,989</u>

20. 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,	
	2019	2018
Ice rink and recreational facilities expense	\$ 57,373	\$ 54,586
General and administrative expenses	4,233	4,269
Other income	(1,571)	(32)

The changes in the above table, as compared to the consolidated statement of earnings and comprehensive income, relate to depreciation of \$5,966,000 (2018 - \$5,153,000) being allocated from other expenses to ice rink and recreational facilities in the amount of \$5,867,000 (2018 - \$5,074,000), and to general and administrative expenses in the amount of \$99,000 (2018 - \$79,000).