Celebrating 20 YEARS

2018 Annual Report

CANLAN ICE SPORTS

The experience is everything.

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LETTER TO SHAREHOLDERS

In 1998, then Canlan Investment Corp., we made a strategic decision to officially turn our sole focus to the ice sports industry, and today we celebrate our 20-year anniversary as the largest and most successful operator in the space. Keeping that strategy in mind, Canlan Ice Sports Corp. has since leveraged its core competencies in recreational ice sports programming and facility operations to add facilities and introduce new offerings in the areas of turf and court sports. We are excited to continue expanding into these popular and growing team sports while continuing to push the boundaries in hockey and skating.

While we have achieved much in the last 20 years, there is plenty of excitement in store for the future of Canlan. Fiscal 2018 was a year of reflection, which led to increased efficiencies in key parts of the business, a change in leadership in some areas, and the evaluation of our portfolio that resulted in an asset optimization process, which is now underway. This leaner, more agile model and mindset has reinvigorated the team at all levels and has already led to superior results, with EBITDA growing year over year by 14.7%.

During the year, we launched the Sport Tourism program offering families, players and teams from around the world, the opportunity to come to Canada and experience the game of hockey, the Canadian way. We saw that China was looking to increase hockey participation leading up to the 2022 winter Olympics and our response was to create an offering that was customizable with camps, exhibition games, tournaments, events and tourism for young hockey players and their families from China and around the world. Canlan Sport Tourism is already receiving positive feedback and we have high expectations of what the future holds.

Wild Wing became our new food & beverage brand of choice, replacing the Thirsty Penguin. Our team was trained in the Wild Wing system and our restaurants' atmosphere was improved during this transition. Our customers have been extremely happy with the quality of the food and the menu offerings. The relationship with the Wild Wing leadership has been tremendous and the first-year results were favorable. We expect these improvements to continue as customer capture rates continue to increase.

Our energy conservation strategy, which was developed nearly a decade ago and refined year after year, has been game changing in terms of ice quality, carbon emission reduction and margin improvement. In a world where energy costs are on the rise, margins are eroding and competition is fierce, we've successfully developed an energy reduction model that positions us to compete more aggressively and capitalize on future growth opportunities.

Part of our new game plan is to challenge the status quo, with the intent of reinventing ourselves, and to a certain degree, the industry. We converted Ice Sports York at the York University campus, to a "Training & Innovation Centre". This facility is now the Training Centre for all new management entering the organization and an innovation hub where we test pilot new products and services before bringing them to life within the Canlan ecosystem. When we look back 10 years from now, like we did in 1998 in choosing to focus on Ice Sports, and in 2008 in focusing on energy management, we want this time in our history to mark a change towards true innovation and how Canlan took recreational sports to the next level.

Financially, 2018 marked our sixth consecutive year of record revenue and EBITDA growth. Revenues of $87.6 million increased $2.2 million or 2.6% while EBITDA of $14.7 million rose $1.9 million or 14.7% compared to 2017. Operating margin increased to 23.3% from 21.9% a year ago. We increased the Company's quarterly dividend by 25% from $0.02 per share to $0.025 per share beginning on July 17, 2018.

None of this would have been possible without the support, dedication and commitment of our team. We have incredible people who understand the importance of teamwork and customer service. The bi-product is superior products and services, improved customer experiences and superior returns.

We are extremely grateful to our loyal customers who choose to make Canlan their home and we consider our business partners and stakeholders an extension of our team as we cannot do this without you. To all of you we say thank you, and we are committed to keep challenging ourselves to bring about continued positive change and positive results.

Sincerely,

Joey St-Aubin
President and Chief Executive Officer

FACILITY LOCATIONS

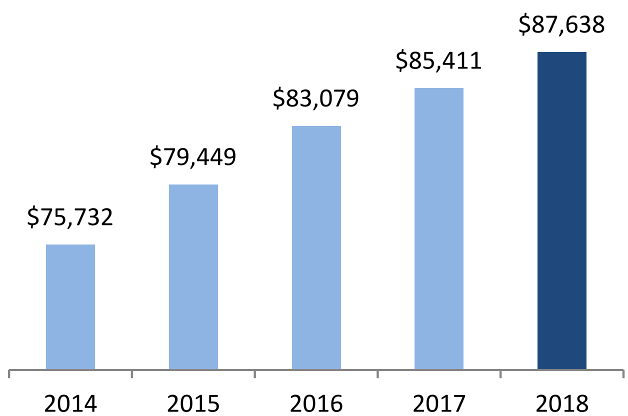
PROVINCE /STATE	METROPOLITAN AREA	FACILITY NAME		FEATURES
British Columbia	Greater Vancouver Area	Burnaby 8 Rinks	(1)	7 ice rinks & 1 indoor soccer field
		Ice Sports North Shore	(4)	3 ice rinks
		Ice Sports Langley Twin Rinks	(2)	2 ice rinks
	Interior British Columbia	South Cariboo Recreation Centre	(3)	1 ice rink
		Armstrong/Spallumcheen Parks & Recreation	(3)	1 ice rink & 1 outdoor pool
Alberta	Calgary	Great Plains Recreation Facility	(4)	2 ice rinks
Saskatchewan	Saskatoon	Ice Sports Jemini	(1)	4 ice rinks
		Ice Sports Agriplace	(1)	2 ice rinks
Manitoba	Winnipeg	Ice Sports Winnipeg	(1)	3 ice rinks & 1 indoor soccer field
Ontario	Greater Toronto Area	Ice Sports Etobicoke	(1)	4 ice rinks
		Ice Sports Oakville	(1)	4 ice rinks
		Ice Sports Scarborough	(1)	4 ice rinks & 1 sport court
		Ice Sports Victoria Park	(2)	2 ice rinks
		Ice Sports York	(2)	6 ice rinks
		Ice Sports Oshawa	(1)	2 ice rinks & 6 beach volleyball courts
		Canlan Sportsplex Mississauga	(2)	2 soccer fields & 4 sport courts
Quebec	Montreal	Les 4 Glaces	(1)	4 ice rinks
Illinois	Chicago	Ice Sports Romeoville	(1)	3 ice rinks
		Canlan Sportsplex Lake Barrington	(1)	1 soccer field (FIFA size) 2 baseball diamonds 2 multi-sport gymnasiums & 1 fitness gym
		Ice Sports West Dundee ❖	(1)	3 ice rinks
Indiana	Fort Wayne	SportONE/Parkview Icehouse	(1)	3 ice rinks

(1) Owned Property (2) Leased Property (3) Managed Property (4) Operating Agreement

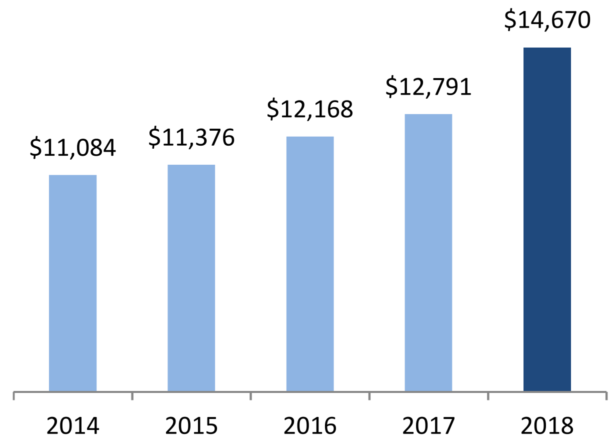
❖ Property Purchased in March 2019

FINANCIAL HIGHLIGHTS

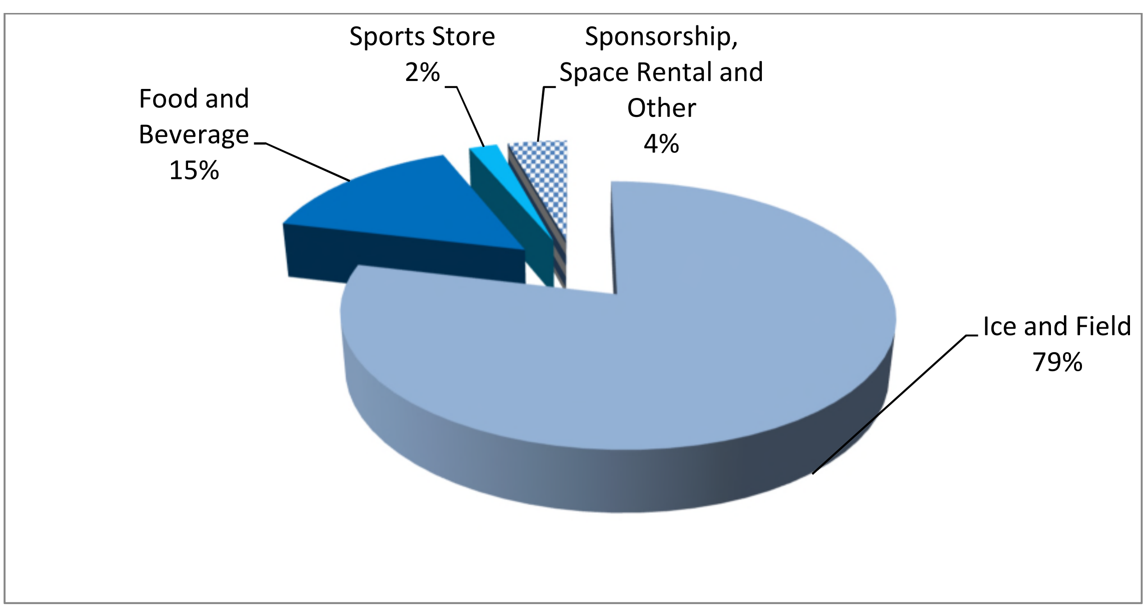
in thousands, except per share information	**2018**	**2017**	**2016**
Revenue	$87,638	$85,411	$83,079
Earnings before interest, taxes, depreciation and amortization (EBITDA)	$14,670	$12,791	$12,168
Net earnings before taxes	$5,594	$4,733	$1,017
Net earnings	$4,483	$3,557	$1,294
Total assets	$128,935	$125,720	$125,559
Shareholders' equity	$49,824	$45,198	$43,565
Earnings per common share	$0.34	$0.27	$0.10
Shareholders' equity per share	$3.74	$3.39	$3.27
Weighted average common shares	13,337,448	13,337,448	13,337,448



Revenue (in thousands)



EBITDA (in thousands)



2018 Sources of Revenue

Canlan Ice Sports Corp.
Management's Discussion and Analysis

The following management's discussion and analysis (MD&A) summarizes significant factors affecting the consolidated operating results and financial condition of Canlan Ice Sports Corp. ("Canlan", the "Company", "we" "our" or "us") for the years ended December 31, 2018 and 2017. This document should be read in conjunction with our audited consolidated financial statements for the years ended December 31, 2018 and 2017 and accompanying notes. The results reported herein have been prepared in accordance with International Financial Reporting Standards ('IFRS') and are presented in Canadian dollars.

In the following discussion, we define EBITDA as earnings before interest, taxes, depreciation and amortization. In addition, the term free cash flow is used, which we calculate as cash flow from operations less capital expenditures minus any proceeds from the disposition of capital assets. However, EBITDA and free cash flow are not terms that have specific meaning in accordance with IFRS, and may be calculated differently by other companies. The Company discloses EBITDA and free cash flow because these are useful indicators of operating performance and liquidity.

Additional information relating to our Company, including quarterly reports and our annual information form, is filed on SEDAR and can be viewed at www.sedar.com and our website www.icesports.com.

The date of this MD&A is March 21, 2019.

Forward Looking Statements

Certain statements in this MD&A may constitute "forward looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this MD&A, such statements may use such words as "may", "will", "expect", "believe", "plan" and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this MD&A. These forward looking statements involve a number of risks and uncertainties. Some of the factors that could cause actual results to differ materially from those expressed in or underlying such forward looking statements are the effects of, as well as changes in: international, national and local business and economic conditions; political or economic instability in the Company's markets; competition; legislation and governmental regulation; and accounting policies and practices. The foregoing list of factors is not exhaustive. Except as required by law, the Company disclaims any intention or obligation to update or revise any forward-looking statements.

Summary of 2018

- Revenue of $87.6 million increased $2.2 million or 2.6% compared to 2017;
- Operating margin increased to 23.3% from 21.9% a year ago;
- EBITDA of $14.7 million rose $1.9 million or 14.7% compared to 2017;
- Cash flow from operations increased by $1.6 million or 14.9% compared to 2017; and
- Total utilities expenses decreased by $0.7 million or 9.4% due to continuing energy management initiatives.

Overview of the Company

Canlan Ice Sports Corp. is a leading operator of ice rink and multi-purpose recreational facilities. The Company's head office is located in its Burnaby, B.C. sports complex and it maintains a second corporate office at its Ice Sports York location in Toronto, Ontario. We currently have approximately 1,100 full time and part time employees working in our facilities.

As at the date of this MD&A the Company owns, leases or manages a network of 21 facilities in Canada and the United States containing playing surfaces as outlined below. The Company owns 13 of these facilities containing 1.5 million square feet of space situated on 165 acres of land. One facility is operated under a long-term land lease arrangement, two facilities under operating agreements with municipalities and a further three facilities under operating leases. We also manage two facilities on behalf of municipalities.

We operate primarily in the sports and recreation industry, with a focus on ice, turf and court sports. Our largest single revenue source within this segment is adult hockey, catering to both men and women operating under the Adult Safe Hockey League (ASHL) brand. Approximately 40% of our ice and field revenue is generated by the ASHL.

The Company's facility portfolio over the past five years, including all owned, leased and managed properties, is as follows:

	Number of Facilities	***Surfaces***
2018	**20**	**77**
2017	20	77
2016	20	77
2015	21	83
2014	20	81

A more detailed summary of the current locations of our facilities is as follows:

Canada:	**Facilities**	**Ice Surfaces**	**Indoor Turf Fields**	**Courts** [a]	**Total Playing surfaces**
British Columbia	5	14	1	-	15
Alberta	1	2	-	-	2
Saskatchewan	2	6	-	-	6
Manitoba	1	3	1	-	4
Ontario	7	22	2	11	35
Quebec	1	4	-	-	4
	17	**51**	**4**	**11**	**66**
USA:					
Illinois	3 [c]	6	1 [b]	4	11
Indiana	1	3	-	-	3
	4	**9**	**1**	**4**	**14**
	21	**60**	**5**	**15**	**80**

Note

a) Includes 3 indoor volleyball courts, 6 outdoor beach volleyball courts, 4 basketball courts and 2 sport courts

b) This is a FIFA regulation field (divisible into multiple fields)

c) One facility located in Illinois, with 3 ice surfaces, was purchased on March 19, 2019

About Canlan

Canlan is a publicly traded Canadian Company with its shares listed on the Toronto Stock Exchange (TSX) using the trading symbol **ICE**. Canlan's shares were first listed for trading on March 1, 1990.

There are approximately 13.3 million shares outstanding and have traded in the $4.32 to $5.25 range since December 31, 2018. The Company has not issued any shares from treasury since November 2004.

The Company derives revenue from six primary sources:

1. **Ice and field sales**
   Revenue from ice and field rentals (together called "ice rentals" or "ice sales"), and internal programming.

2. **Food and beverage**
   Sales from our licensed restaurants and concession operations inside our facilities.

3. **Sports stores**
   Sales and rental of sports equipment and apparel, and skate sharpening services.

4. **Management and consulting**
   Fees from managing facilities owned by third parties and consulting engagements completed by our Partnership Solutions Division.

5. **Sponsorship**
   Revenue from sponsorship and advertising sales.

6. **Space rental**
   Rental of space inside our facilities.

Vision, Core Business and Strategy

Canlan will strive to be:

> **"A high performance industry leader, passionately committed to providing exceptional customer experiences, every time."**

The Company's goal is to leverage its position in the North American recreation industry by continuing to focus on both organic growth and expansion through acquisition. While our largest single market segment is adult recreational hockey leagues, we are focused on increasing utilization in other important segments including skating and hockey schools, soccer programs, court sports such as volleyball and ball hockey, specialty sports leagues and camps, and hockey tournaments. By providing quality products and services in clean, safe facilities, we still have capacity to grow our existing revenue base by providing value added services to our customers. At the same time, we actively seek opportunities to expand our business through acquisition. Expansion objectives are to achieve a high return on investment and penetrate strategic markets.

We have developed six critical success factors supported by specific project initiatives that help the organization reach our goals:

1) **Sales and Marketing** - Cutting edge marketing that maximizes brand awareness, revenue and customer loyalty.

2) **Customer Experience** – Exceptional service delivered by well-trained and motivated staff, which results in consistently great experiences.

3) **New Ventures & Innovation** - Proactively seek out new opportunities that drive revenue and income growth.

4) **Operational Excellence** – Highly efficient and effective facility operations using industry–leading technology, streamlined process and consistent best practices.

5) **People & Leadership** – Strong leadership and highly dedicated people accountable for delivering outstanding customer experiences and business results.

6) **Culture** – High energy action-oriented culture that has a strong foundation in team-work, pride, respect and accountability.

Management continues to focus on carrying out these initiatives that are connected with these critical success factors. Over the past five years, several new ventures have been established and operational improvements have been achieved through strategic capital investments.

The Marketplace and Our Competition

Canlan's current marketplace is recreation, and we understand that we compete for market share with other sports and activities, some of which have lower participation costs. Our largest program is Adult Safe Hockey League. This segment of our business represents 40% of our total ice and field revenue from rentals and programming, or $27.4 million. It also represents 31% of total revenue.

Canlan's largest competition is from municipalities and private league operators. Local governments cater primarily to their constituents who are usually made up of minor hockey and other amateur user groups. There are many private league operators in Canada that purchase ice time from local rinks and run adult leagues, and in some markets, there have been private operators that have constructed new ice rink facilities and operate competing leagues that capture market share. However, Canlan has various competitive advantages, one of which is that we control the ice inventory in our facilities, enabling us to schedule ice times efficiently and provide quality ice times where deemed most appropriate. In addition, our adult hockey leagues offer a level of fair competition and service that helps retain customers. Finally, our facilities are generally full-service sports & entertainment centers where we incorporate retail and food & beverage services into the customers' experience.

Competitive Strengths

The Company believes that it has the following competitive strengths:

- ***Our Team***. Canlan currently has 1,100 full and part time dedicated employees in Canada and the USA. Through training and internal communications, we have established Canlan as the place to work in our segment and we attract skilled people in the industry. Our employees have industry-specific knowledge and are focused on providing quality customer service and a safe environment. In addition, Canlan's executive team is comprised of seven members who plan and monitor operations in all departments, set policies, and continually assess future growth strategies. These individuals have extensive expertise in facility operations, sales, marketing, customer service, finance and human resources.

- ***Adult Safe Hockey League (ASHL)***. The Company operates one of the largest adult recreational hockey leagues in North America. The ASHL offers superior services and fair competition in a fun environment. It operates year-round and has approximately 63,000 players registered for the winter and summer seasons in various divisions based on skill and age.

- ***Diversified Recreation***. In addition to ice surfaces, the Company also operates turf fields and sport courts on which many other sports can be played such as, but not limited to, soccer, volleyball, basketball, and ball hockey. This enables the Company to diversify its product offerings and expand its market reach to various demographic groups.

- ***Geographic Coverage***. Canlan currently owns and operates facilities in six provinces in Canada and two U.S. states giving us broad geographic coverage. Our geographic diversity and wide customer base help to mitigate the effects of economic cycles.

- ***Buying Power***. As a result of being geographically diversified, and having significant product volumes in a number of categories, we are able to negotiate national supply agreements for preferred pricing.

Selected Financial Information

The following selected consolidated financial information as at December 31, 2018, 2017, and 2016 and each of the quarters and years then ended has been derived from our 2018 and 2017 annual and interim consolidated financial statements. This data should be read together with those financial statements.

	(unaudited) Quarter ended December 31		*(audited)* Year ended		
in thousands, except earnings per share	**2018**	2017	**2018**	2017	2016
Statement of Operations Data:					
Total revenue	**$ 24,799**	$ 24,278	**$ 87,638**	$ 85,411	$ 83,079
Direct expenses [(1)]	**(17,689)**	(16,702)	**(67,201)**	(66,701)	(65,717)
General & administration expenses	**(1,577)**	(2,074)	**(5,767)**	(5,919)	(5,194)
EBITDA	**5,533**	5,502	**14,670**	12,791	12,168
Other expenses:					
Depreciation	**(1,776)**	(1,706)	**(6,929)**	(6,951)	(7,017)
Finance costs	**(495)**	(511)	**(2,039)**	(2,117)	(4,888)
Foreign exchange gain (loss)	**64**	3	**91**	(24)	474
Gain (loss) on interest rate swap	**(570)**	85	**(209)**	1,027	259
Gain on sale of assets	**5**	-	**10**	7	21
Tax recovery (expense)	**(497)**	(939)	**(1,111)**	(1,176)	277
Net earnings	**$ 2,264**	$ 2,434	**$ 4,483**	$ 3,557	$ 1,294
Other comprehensive income (loss)	**1,136**	37	**1,410**	(857)	(390)
Total comprehensive income	**$ 3,400**	$ 2,471	**$ 5,893**	$ 2,700	$ 904
Basic and fully diluted earnings per share	**$ 0.17**	$ 0.18	**$ 0.34**	$ 0.27	$ 0.10
Balance Sheet Data:					
Cash and cash equivalents			**$ 19,845**	$ 18,629	$ 16,335
Current assets (excluding cash)			**5,561**	4,742	4,392
Capital assets			**99,582**	99,146	102,500
Assets held-for-sale			**596**	-	-
Interest rate swap			**1,077**	1,286	259
Other assets			**2,274**	1,917	2,073
Total assets			**$ 128,935**	$ 125,720	$ 125,559
Current liabilities, excluding debt			**$ 25,448**	$ 23,314	$ 22,090
Mortgage debt			**50,811**	53,679	55,593
Equipment leases			**1,714**	2,341	3,413
Deferred tax liabilities			**1,138**	1,188	898
Total liabilities			**79,111**	80,522	81,994
Shareholders's equity			**49,824**	45,198	43,565
			$ 128,935	$ 125,720	$ 125,559
Dividends declared			**$ 1,267**	$ 1,067	$ 1,067

(1) Direct expenses include all operating costs related to the operation of our facilities.

Review of Fiscal 2018 Operations

Revenue

Total revenue of $87.6 million increased by $2.2 million or 2.6% compared to 2017.

Approximately 79% or $69.0 million (2017 - $67.7 million) of the Company's total revenue is generated from ice and field activities. In-house programming accounts for approximately 72% of this revenue source and gives us a distinct advantage over third-party rentals because it enables us to manage ice and field inventory based on demand. Canlan's largest internal program is the Adult Safe Hockey League.

The Adult Safe Hockey League

The ASHL operates in two seasons: 1) the fall/winter season from September to April and; 2) the spring/summer season from May to August.

In 2018, the ASHL generated revenue of $27.4 million compared to $27.1 million in 2017, which represents an increase of $0.3 million or 1.2%. The increase was principally due to pricing.

The ASHL experiences competition from other league and rink operators, but management continues to focus on enhancing the experience of players, whether it be the team administration process, game play, playoff formats, or post-game social networking. This is critical to maintaining our position as leaders in the adult recreation hockey market.

The Youth Hockey League and 3 on 3

In addition to the ASHL, Canlan also operates a variety of youth leagues in the spring and summer seasons. These leagues are designed for minor hockey players who wish to continue playing after the regular fall/winter season ends. We offer both the traditional "5 on 5" formats as well as a "3 on 3" league for those players looking for more speed in the game.

In the U.S. locations, our facilities are associated with minor hockey organizations in their local communities and revenues are earned from a combination of ice rentals to minor hockey associations, and registration fees for youth hockey teams and programs that we operate internally.

Youth hockey league revenue of $3.6 million decreased by $0.3 million or 6.7% compared to 2017 mainly due to increased competition and demographic shifts in certain regions.

Canlan Camps, Hockey and Skating Academies

Canlan offers a variety of developmental programs through our branded Canlan Camps and Hockey and Skating Academies. Canlan Camps operate primarily in the summer months directed at the youth market, with a focus on hockey skills development and fun activity in various other sports.

Hockey and Skating Academies for adult and youth operate throughout the year and weekly classes are held to teach everything from learn-to-skate and figure skating, to power skating and team tactics. The growth opportunities of these programs are concentrated in the summer season when ice inventory is available and the youth population is generally not in school.

In 2018, these programs generated $8.0 million in gross revenue; an increase of $0.3 million or 3.3% from 2017 mainly due to pricing.

Tournaments

Tournament revenue of $3.3 million increased by $0.3 million or 8.2% compared to 2017 mainly due to strong summer season with higher participation numbers. Canlan runs a high-volume in-house tournament business that reduces our reliance on third party tournament operators during the summer and shoulder seasons. While the majority of our tournaments are held in Canlan facilities, which increase our ice utilization, we also hold a number of destination tournaments in third party arenas to add variation to our product offerings.

Contract Ice, Field and Court Rentals

After providing the necessary allocation of ice, field and court times to operate our in-house programs, we rent ice, fields and courts to third parties. Ice, field and court time are used by private groups, minor hockey associations, third party tournaments and camp operators as well as some adult leagues. Overall, third party contracts accounted for $19.4 million in 2018; an increase of $0.2 million or 1.3% from $19.2 million in 2017 mainly due to increased volume and pricing.

Soccer

Canlan operates five indoor soccer fields: one in Burnaby, B.C., one in Winnipeg, Manitoba, two in Mississauga, Ontario, and one FIFA-sized field divisible into four fields in Lake Barrington, Illinois. Total soccer revenue of $3.1 million in 2018 increased by $0.4 million or 14.9% from 2017 mainly due to pricing and higher registrations in adult and youth indoor soccer leagues.

Similar to the ASHL on ice, a significant portion of prime-time utilization of these synthetic turf fields is comprised of indoor soccer leagues, branded the “AISL”. In addition, we have secured field rental contracts with large youth and adult soccer associations that utilize prime and off-prime field times.

Revenue generated from activity on our ice rinks and soccer fields are broken down as follows:

	2018		2017	
in thousands	**Revenue**	**% of total**	Revenue	% of total
Adult hockey leagues	**$ 27,427**	**40**	$ 27,103	40
3rd party contract users	**19,392**	**28**	19,153	28
Camps, hockey & skating schools	**7,989**	**11**	7,737	11
Youth hockey leagues	**3,596**	**5**	3,854	6
Public programs & spot rentals	**3,396**	**5**	3,333	5
Tournaments	**3,346**	**5**	3,091	5
Soccer field rentals and leagues	**3,116**	**5**	2,713	4
Other	**746**	**1**	674	1
	$ 69,008	**100**	$ 67,658	100

Food & Beverage (F&B)

Revenue from our 17 restaurant and concession operations was $13.1 million in 2018, increased by $0.8 million or 6.5% from 2017.

Most of our food and beverage establishments are licensed and we operate all our restaurants in-house to ensure our customers receive quality products and service. The main drivers for F&B revenue are adult league players and tournament traffic that play in our venues. Accordingly, increases in tournament traffic and the roll out of a new restaurant menu contributed to the F&B revenue growth during 2018.

Management continues to focus on menu offerings, pricing, and loyalty and promotional programs to improve the customer experience in our restaurants.

Food and beverage sales accounted for 15% of total revenue which is consistent with 2017.

Sports Stores

During the year, Canlan operated seven sports stores that sell equipment, apparel, and skate sharpening services in our buildings. The Company rents retail space to third party store operators under long term leases in another six facilities. Our seven sports stores generated $1.8 million in gross sales in 2018, which decreased by $0.2 million or 9.3% compared to 2017 mainly due to lighter hockey league traffic and the outsourcing of one of our sports stores during the second half of 2017. Sports store revenue represents 2% of total revenue. Skate sharpening revenue was $0.5 million, unchanged from 2017.

Management Contracts

Management services revenue is comprised of fees for managing recreation facilities on behalf of owners and one-time consulting engagements. Management fee revenue of $0.3 million remained consistent with 2017. The Company is currently involved in two management contracts in British Columbia, and one management contract in Alberta which has an income sharing arrangement with the municipality.

Sponsorship and Space Rental

In many facilities, we rent space to complimentary types of businesses and we also sell advertising space to third party sponsors as ancillary sources of revenue. Sponsorship and space rental revenue of $2.8 million rose by $0.2 million or 8.6%, mainly due to higher sponsorship sales.

Other Revenue

Other revenue of $0.7 million in 2018 remained steady with 2017. Other revenue includes commissions received on vending machines plus fees Canlan earns from the registration and operation of affiliate adult recreation hockey leagues across Canada. These affiliate leagues are not part of the ASHL but are members of Canlan's Adult Safe Hockey Network.

Revenue by business segment and geographic region are as follows:

in thousands		2018 Sales	% of total		2017 Sales	% of total
Ice and Field Sales	$	**69,008**	**79**	$	67,658	79
Food and Beverage		**13,116**	**15**		12,317	14
Sports Store		**1,782**	**2**		1,965	2
Sponsorship		**1,383**	**1**		1,258	2
Space Rental		**1,408**	**2**		1,311	2
Management & Consulting Fees		**258**	**-**		262	-
Other		**683**	**1**		640	1
	$	**87,638**	**100**	$	85,411	100

in thousands		2018 Sales	% of total		2017 Sales	% of total
Canada:						
British Columbia	$	**18,443**	**21**	$	18,112	21
Alberta		**1,901**	**2**		1,662	2
Saskatchewan		**7,203**	**8**		7,038	8
Manitoba		**4,809**	**6**		4,509	5
Ontario		**40,536**	**46**		39,463	47
Quebec		**4,447**	**5**		4,477	5
		77,339	**88**		75,261	88
USA		**10,299**	**12**		10,150	12
	$	**87,638**	**100**	$	85,411	100

Revenue by Quarter

The Company recorded the following revenue by quarter in 2018. The revenue stream is somewhat seasonal with 57% of the Company's revenue being generated in the fall and winter months (first and fourth quarters) and 43% in the spring and summer seasons (second and third quarters).

in thousands		2018 Revenue	% of total		2017 Revenue	% of total
Q1	$	**25,624**	**29**	$	25,147	30
Q2		**18,943**	**22**		18,616	22
Q3		**18,272**	**21**		17,370	20
Q4		**24,799**	**28**		24,278	28
	$	**87,638**	**100**	$	85,411	100

Direct Operating Costs

Total facility operating costs of $67.2 million in 2018 increased by $0.5 million or 0.7% compared to 2017, mainly due to an increase in repairs and maintenance expenses, partially offset by reduced utility expenses.

Repairs and maintenance expenses increased by $1.2 million or 25.2% compared to 2017 mainly due to increased roof remediation projects in several facilities.

Utility expense decreased by $0.7 million or 9.4% from 2017 mainly due to reduction of electricity consumption directly related to continued energy management initiatives and equipment replacement projects completed in the past several years.

In addition, salary and wage expenses remained relatively stable from 2017 as a result of the implementation of a labour optimization plan.

Facility operating costs are less seasonal than revenue, as our business does have a fixed cost component to it.

		2018			2017	
in thousands		**Costs**	**% of total**		Costs	% of total
Q1	**$**	**16,559**	**25**	$	17,132	26
Q2		**17,119**	**25**		16,869	25
Q3		**15,834**	**24**		15,998	24
Q4		**17,689**	**26**		16,702	25
	$	**67,201**	**100**	$	66,701	100

Operating Margin before General and Administration expenses

Operating margin is calculated as revenue less operating expenses expressed as a percentage of revenue. Operating margin for 2018 increased to 23.3% from 21.9% a year ago.

U.S. Facility Operations

On March 19, 2019, the company completed a purchase of a three-pad ice rink facility in West Dundee, a suburb of Chicago, Illinois. The facility was purchased for US$10.0 million. At the date of this MD&A, the Company's U.S. operations consist of an ice rink facility in Fort Wayne, Indiana, and two ice rink facilities plus a non-ice multi-sport complex in the Greater Chicago area (see **Overview of the Company**).

Overall, U.S. operations have stabilized over the past two years and the focus of the existing facilities is now on revenue growth through strong program execution and cost management through cost and labour efficiencies. The addition to our portfolio is consistent with our strategy to continue expanding our U.S. operations by acquiring ice and turf sport facilities with significant upside potential.

General and Administration (G&A) Expenses

Corporate G&A expenses of $5.8 million decreased by $0.2 million or 2.6% compared to 2017 mainly due to decreased labour costs and professional fees. Minor adjustments to corporate performance-based compensation plans and the corporate staff structure contributed to reduced salary and wages. Professional fees decreased due to lower expenses for consulting engagements compared to the prior year. G&A expense represented 6.6% of total revenue in 2018 compared to 6.9% in 2017.

G&A expenses throughout the year are as follows:

		2018			2017	
in thousands		**Expense**	**% of total**		Expense	% of total
Q1	**$**	**1,483**	**26**	$	1,402	24
Q2		**1,375**	**24**		1,299	22
Q3		**1,332**	**23**		1,144	19
Q4		**1,577**	**27**		2,074	35
	$	**5,767**	**100**	$	5,919	100

EBITDA

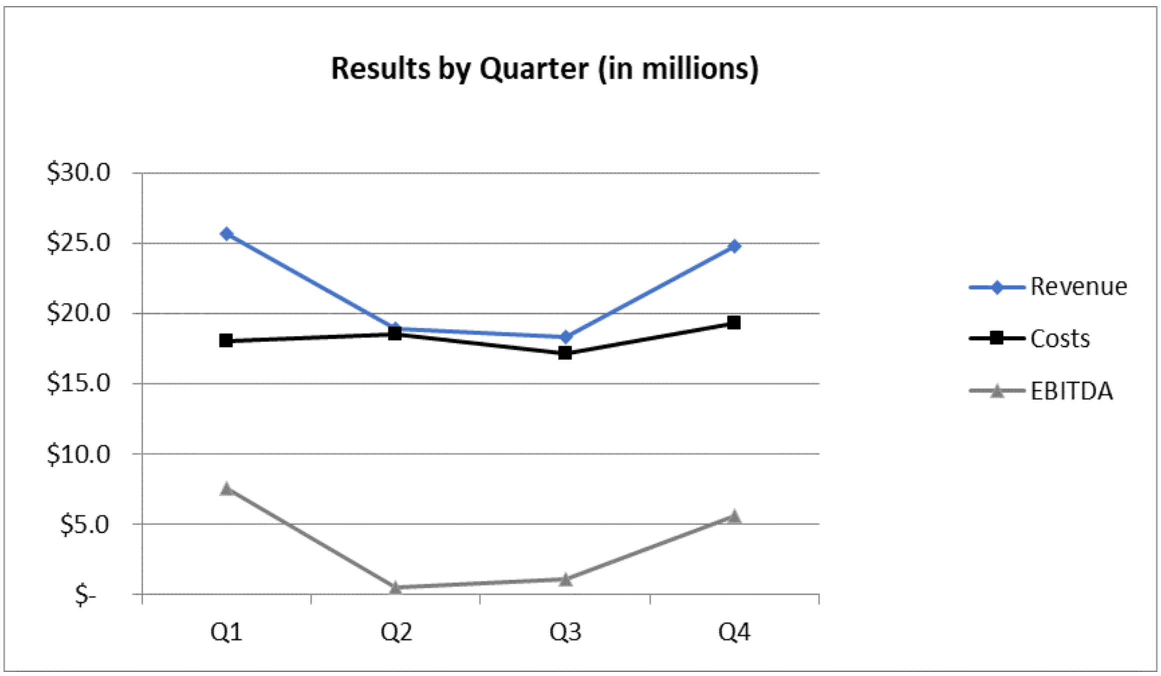
After accounting for facility operating costs of $67.2 million (2017 - $66.7 million) and G&A expenses of $5.8 million (2017 - $5.9 million), EBITDA was $14.7 million; an increase of $1.9 million or 14.7% compared to 2017.

The Company's EBITDA by quarter was as follows:

		2018			2017	
in thousands		**EBITDA**	**% of total**		EBITDA	% of total
Q1	**$**	**7,582**	**52**	$	6,613	52
Q2		**449**	**3**		448	3
Q3		**1,106**	**7**		228	2
Q4		**5,533**	**38**		5,502	43
	$	**14,670**	**100**	$	12,791	100

The seasonality of the Company's EBITDA is a direct result of seasonal revenue stream combined with a cost structure that is relatively fixed.

This trend is illustrated as follows:



Gross Margin

Gross margin is calculated as revenue less operating and G&A expenses, expressed as a percentage of revenue. Gross margin for 2018 was 16.7% compared to 15.0% in 2017.

Non-operating Expenses

Depreciation

Depreciation expense of $6.9 million remained consistent with 2017.

The Company's depreciation policy was unchanged during the year. The policy calls for straight-line depreciation of facility assets over periods ranging from five to forty years.

Finance Income and Costs

Finance income and costs mainly consist of interest income earned on cash on hand, interest expense on mortgage debt and finance leases, amortization of deferred financing costs, and unrealized mark-to-market gains or losses on an interest rate swap contract (see **Financial Instruments** below for further details).

Net finance costs were $2.2 million compared to $1.1 million a year ago. The unrealized mark-to-market loss on an interest rate swap contract was $0.2 million compared to a gain of $1.0 million in 2017.

A breakdown of our net finance cost is as follows:

in thousands		**2018**		2017
Mortgage interest	**$**	**1,975**	$	1,933
Interest income		**(250)**		(124)
Equipment lease interest		**112**		138
Loss (gain) on interest rate swap		**209**		(1,027)
Amortization of deferred financing costs and other		**202**		170
	$	**2,248**	$	1,090

At year end, the Company had interest bearing, mortgage secured debt totaling $50.8 million (2017 – $53.7 million).

The Company has fixed the interest rate on 65% of its mortgage debt, or $33.4 million at a weighted average rate of 3.52%. Debt with variable interest rates consists of $10.8 million at the Prime rate plus 0.50%, and $6.9 million at CDOR plus 2.10%.

Costs related to debt financing are amortized using the effective interest rate method in accordance with IFRS and classified as interest expense. In 2018, total financing fees expensed was $106,000 compared to $81,000 in 2017.

Net Earnings Before Income Taxes

Net earnings before income taxes was $5.6 million in 2018 compared to $4.7 million in 2017.

Taxes

In 2018, a net tax expense of $1.1 million that comprised of $1.2 million of current tax expense and $0.1 million of deferred tax recovery was recorded.

Each year, management reviews assumptions regarding deferred income tax assets and liabilities to ensure that the reported balances appropriately reflect tax benefits available to offset future income taxes and future reversal of those benefits. The deferred tax assets and liabilities mainly resulted from the timing difference between tax and accounting depreciation, and the timing difference of deferred revenue.

Prior to 2016, U.S. operations incurred losses for tax purposes of approximately $9.0 million that are carried forward and available to offset future taxable income in the United States. The Company is permitted to recognize deferred tax assets to the extent of the amount of taxable income that will be probable in future years. In 2018, the Company recognized $0.2 million (2017 - $0.1 million) of deferred tax benefits based on the Company's estimation of 2018 taxable income and probable taxable income in future years. The remaining losses carried forward have not been recognized as deferred tax assets at December 31, 2018.

Net Earnings

Net earnings after tax for the year ended December 31, 2018 was $4.5 million or $0.34 per share, compared to $3.6 million in 2017 or $0.27 per share.

Foreign Currency Translation and Other Comprehensive Income

Other comprehensive income comprises foreign currency translation adjustments related to the Company's U.S. subsidiaries. Other comprehensive income in 2018 was $1.4 million (2017 – a loss of $0.9 million).

Transactions in U.S. dollars that are not part of the Company's U.S. subsidiaries, are recognized at the rates of exchange prevailing at the date of the transaction. In addition, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the period end date. As a result, foreign currency differences arising on the retranslation are recognized in net earnings.

Summary of Operations
For the years ended December 31

in thousands	**2018**	2017	2016
Revenue	**$ 87,638**	$ 85,411	$ 83,079
Expenses	**67,201**	66,701	65,717
Earnings from operations	**20,437**	18,710	17,362
General & administration	**5,767**	5,919	5,194
EBITDA	**14,670**	12,791	12,168
Other expenses (income)			
Depreciation	**6,929**	6,951	7,017
Gain on sale of assets	**(10)**	(7)	(21)
Foreign exchange (gain) loss	**(91)**	24	(474)
	6,828	6,968	6,522
Finance costs (income)			
Finance costs	**2,289**	2,241	2,636
Debt retirement fee	**-**	-	2,318
Finance income	**(250)**	(124)	(66)
Loss (gain) on interest rate swap	**209**	(1,027)	(259)
	2,248	1,090	4,629
Net earnings before taxes	**5,594**	4,733	1,017
Income tax expense (recovery)			
Current	**1,194**	779	(347)
Deferred	**(83)**	397	70
	1,111	1,176	(277)
Net earnings	**4,483**	3,557	1,294
Other comprehensive income (loss):			
Items that may be reclassified subsequently to net earnings:			
Foreign currency translation differences	**1,410**	(857)	(390)
Total comprehensive income	**$ 5,893**	$ 2,700	$ 904
Operating margin before general & administration	**23.3%**	21.9%	20.9%
Administration as a percentage of revenue	**6.6%**	6.9%	6.3%
EBITDA as a percentage of revenue	**16.7%**	15.0%	14.6%

Summary of Quarterly Results

The following tables present our unaudited consolidated quarterly results of operations for each of the last eight fiscal quarters. This data has been derived from our unaudited quarterly consolidated financial statements which are prepared on the same basis as our annual audited financial statements.

	2018				
in thousands	Q1	Q2	Q3	Q4	Total
Gross revenue	$ 25,624	$ 18,943	$ 18,272	$ 24,799	$ 87,638
Operating costs	(16,559)	(17,119)	(15,834)	(17,689)	(67,201)
	9,065	1,824	2,438	7,110	20,437
General & administration	(1,483)	(1,375)	(1,332)	(1,577)	(5,767)
EBITDA	**7,582**	**449**	**1,106**	**5,533**	**14,670**
Depreciation	(1,725)	(1,725)	(1,703)	(1,776)	(6,929)
Finance costs	(516)	(502)	(526)	(495)	(2,039)
Foreign exchange gain (loss)	10	35	(18)	64	91
Gain (loss) on interest rate swap	125	8	228	(570)	(209)
Gain on sale of assets	4	-	1	5	10
Net earnings (loss) before taxes	**5,480**	**(1,735)**	**(912)**	**2,761**	**5,594**
Income taxes	(1,260)	458	188	(497)	(1,111)
Net earnings (loss)	**$ 4,220**	**$ (1,277)**	**$ (724)**	**$ 2,264**	**$ 4,483**
Earnings (loss) per share	**$ 0.32**	**$ (0.10)**	**$ (0.05)**	**$ 0.17**	**$ 0.34**

	2017				
in thousands	Q1	Q2	Q3	Q4	Total
Gross revenue	$ 25,147	$ 18,616	$ 17,370	$ 24,278	$ 85,411
Operating costs	(17,132)	(16,869)	(15,998)	(16,702)	(66,701)
	8,015	1,747	1,372	7,576	18,710
General & administration	(1,402)	(1,299)	(1,144)	(2,074)	(5,919)
EBITDA	**6,613**	**448**	**228**	**5,502**	**12,791**
Depreciation	(1,781)	(1,765)	(1,699)	(1,706)	(6,951)
Finance costs	(537)	(525)	(544)	(511)	(2,117)
Foreign exchange gain (loss)	1	(11)	(17)	3	(24)
Gain (loss) on interest rate swap	(14)	414	542	85	1,027
Gain on sale of assets	-	6	1	-	7
Net earnings (loss) before taxes	**4,282**	**(1,433)**	**(1,489)**	**3,373**	**4,733**
Income taxes	(1,004)	443	324	(939)	(1,176)
Net earnings (loss)	**$ 3,278**	**$ (990)**	**$ (1,165)**	**$ 2,434**	**$ 3,557**
Earnings (loss) per share	**$ 0.25**	**$ (0.07)**	**$ (0.09)**	**$ 0.18**	**$ 0.27**

Review of Fourth Quarter 2018

In Q4, revenue of $24.8 million, increased by $0.5 million or 2.1% compared to prior year. The main drivers of the increase were higher contract revenue, growth in youth and adult soccer leagues, pricing of adult hockey leagues and incremental food & beverage revenue.

Operating cost of $17.7 million, increased by $1.0 million or 5.9% mainly due to higher repairs and maintenance expenses incurred during Q4 2018 compared to prior year.

Operating earnings before G&A expenses was $7.1 million compared to $7.6 million in 2017.

After recording G&A expenses of $1.6 million, EBITDA was $5.5 million consistent with 2017. G&A decreased by $0.5 million or 24.0% principally due to decreased consulting fees related to specific projects in 2017 and reduced performance-based compensation accrued in 2018.

After recording finance costs, depreciation, a gain on foreign exchange, and mark-to-market loss on financial instruments (interest rate swap contract) totaling $2.8 million, net earnings before taxes was $2.8 million compared to $3.4 million in the fourth quarter of 2017. Fluctuations in mark-to-market gains are largely dependent on market interest rate movements.

After income tax, net earnings was $2.3 million or $0.17 per share, compared to $2.4 million or $0.18 per share in 2017. A summary of Q4 results is as follows:

in thousands		**2018**		2017
Gross revenue	**$**	**24,799**	$	24,278
Operating costs		**(17,689)**		(16,702)
		7,110		7,576
General & administration		**(1,577)**		(2,074)
EBITDA		**5,533**		5,502
Depreciation		**(1,776)**		(1,706)
Finance costs		**(495)**		(511)
Gain (loss) on interest rate swap		**(570)**		85
Other		**69**		3
Net earnings before taxes and other		**2,761**		3,373
Income taxes		**(497)**		(939)
Net earnings		**2,264**		2,434
Other comprehensive income		**1,136**		37
Total comprehensive income	**$**	**3,400**	$	2,471
Earnings per share	**$**	**0.17**	$	0.18

Review of Assets

The table below summarizes the Company's asset base:

in thousands	**2018**	2017
Properties	**$ 99,582**	$ 98,596
Cash	**19,845**	18,629
Accounts receivable	**3,361**	3,051
Inventory	**1,099**	1,094
Prepaid expenses and other assets	**1,681**	853
Investment properties	**-**	550
Assets held-for-sale	**596**	-
Financial asset held for trading	**1,077**	1,286
Deferred income taxes	**1,694**	1,661
	$ 128,935	$ 125,720

During the year ended December 31, 2018, the Company invested $6.6 million (2017 - $4.9 million) on capital expenditures related to building improvements and renewal of plant equipment at various facilities. Approximately $0.3 million of the capital expenditures was funded with lease financing. Expenditures undertaken during the year included refrigeration equipment, plant automation systems, ice resurfacing equipment, and installation of energy efficient lighting at various facilities. In addition, a new parking lot was developed at our Saskatoon location.

At December 31, 2018, the total property, plant and equipment balance was $99.6 million compared to $98.6 million in 2017. The increase resulted from current-year additions net of depreciation and foreign currency translation differences that reflected a higher U.S. dollar compared to December 2017.

In January 2019, the Company finalized plans to sell one of its recreation properties. The Company intends to continue facility operations until May 5, 2019 and then close the facility in preparation for an intended sale completion on or before December 31, 2019.

On March 19, 2019, the Company completed the purchase of a recreation facility in Chicago, Illinois for US$10.0 million. The purchase price was financed with a combination of the Company's cash and existing capital expenditure credit facility. See **Review of Liabilities and Shareholders' Equity** below.

Investment properties were reclassified as assets held-for-sale as they are expected to be sold within twelve months.

Cash on hand of $19.8 million at the end of 2018 was higher than 2017 as cash generated from operations increased from 2017.

Cash and cash equivalents include $0.9 million (2017 – $0.9 million) of restricted cash representing funds held in trust in accordance with the terms of a facility operating agreement and a lease agreement with third parties. These funds are maintained as operating and capital expenditure reserves and the balance will change as reserve requirements are adjusted.

Prepaid expenses consist of amounts paid in advance that will be expensed in the subsequent 12 months, such as insurance and property taxes.

Review of Liabilities and Shareholders' Equity

The table below summarizes the Company's capital structure:

in thousands	**2018**	2017
Debt	**$ 50,811**	$ 53,679
Deferred revenue and customer deposits	**12,881**	13,209
Accounts payable	**12,567**	10,105
Finance leases	**1,714**	2,341
Deferred income taxes	**1,138**	1,188
	79,111	80,522
Shareholders' equity	**49,824**	45,198
	$ 128,935	$ 125,720

Interest bearing liabilities, which include debt and finance leases, totaled $52.5 million as at December 31, 2018, compared to $56.0 million as at December 31, 2017. The net decrease of $3.5 million mainly resulted from repayments of debt and finance leases. (see **Review of Liabilities and Shareholders' Equity** – *Mortgages* below).

Deferred revenue and customer deposits represent customer registration and rental fees received in advance of when ice and field times are actually used.

At December 31, 2018, the working capital deficit was $4.0 million compared to $6.2 million at December 31, 2017. This improvement was principally due to an increase of the Company's cash position (see **Review of Assets** above) and lower current debt as certain loans were reclassified as non-current liabilities in 2018 in accordance with debt agreements.

Mortgages

As at December 31, 2018, debt consists of five credit facilities, four of which have been drawn, as follows:

1) $38.5 million 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, maturing on May 25, 2023, to fix the interest rate at 3.52% per annum payable monthly. At December 31, 2018, the balance outstanding was $33.4 million;

2) $10.0 million loan amortized over 15 years, maturing on May 25, 2023, interest at Prime rate plus 0.50% per annum payable monthly. At December 31, 2018, the balance outstanding was $8.7 million;

3) $20.0 million revolving capital expenditure loan amortized over 15 years, maturing on May 25, 2023, interest at Prime rate plus 0.50% per annum. At December 31, 2018, the balance outstanding was $2.1 million;

4) In August 2018, the Company settled two U.S. currency denominated loans totalling $7.0 million with a new credit facility of $7.1 million denominated in Canadian currency. The new $7.1 million loan is amortized over 15 years, maturing on September 30, 2023, interest at CDOR plus 2.1% per annum payable monthly. At December 31, 2018, the balance outstanding was $6.9 million; and

5) $0.7 million demand revolving operating loan, interest at Prime rate plus 0.50% per annum. No amounts have been drawn on this loan to date.

On March 19, 2019, the Company completed the purchase of a recreation facility in Chicago, Illinois for US$10.0 million. The purchase price was financed with a combination of the Company's cash and existing capital expenditure credit facility.

We were in full compliance with debt covenants as at December 31, 2018 and we expect to continue to be in compliance during the coming fiscal year.

Customer Deposits and Deferred Revenue

A large component of our current liabilities is comprised of deferred revenue related to league registrations and customer deposits received in advance which totaled $12.9 million as at December 31, 2018 (2017 - $13.2 million). We recognize revenue as ice or field time is used; many of the seasonal contracts and league registrations are paid in advance.

Finance Leases

Finance lease was used in 2018 to finance the acquisition of equipment used in our facilities such as ice re-surfacers and computer equipment with a term of five years. In 2017, the Company drew on a capital expenditure demand loan to finance some of its heavy equipment (see **Review of Liabilities and Shareholders' Equity** – *Mortgages* above).

Liquidity and Capital Resources

Canlan's cash balance as at December 31, 2018 was $19.8 million compared to $18.6 million from December 31, 2017 mainly due to increased cash generated from operations.

During 2018, we utilized $1.0 million to reduce the principal on finance leases and $1.2 million to pay dividends on common shares. On November 13, 2018, the Company continued its dividend policy and declared a quarterly dividend of $0.025 per share on a record date on December 31, 2018 which was paid on January 16, 2019. In addition, net cash of $3.2 million was utilized for scheduled debt repayments.

Cash utilized for investment activities in 2018 included $5.9 million incurred on facility capital expenditures (see **Review of Assets** above) and $0.4 million related to software development and computer hardware deployed at the corporate offices.

Summarized Statement of Cash Flows:

in thousands		**2018**		2017
Cash inflows and (outflows) by activity				
Operating activities	**$**	**12,820**	$	10,802
Financing activities		**(5,311)**		(3,625)
Investing activities		**(6,293)**		(4,883)
		1,216		2,294
Cash position, beginning of year		**18,629**		16,335
Cash position, end of year	**$**	**19,845**	$	18,629
Key ratios				
Working capital	**$**	**(4,014)**	$	(6,223)
Debt to equity ratio		**1.05:1**		1.24:1

The reduction in our working capital deficiency was mainly due to an increase of the Company's cash position (see **Review of Assets** above) and lower current debt as certain loans were reclassified as non-current liabilities in 2018 in accordance with debt agreements (see Review of **Liabilities and Shareholders' Equity** above). The decrease in the debt to equity ratio at the end of 2018 was mainly due to improved earnings and scheduled debt repayments.

Cash Flow

Our cash position fluctuates during the year as a result of the seasonality of our business. Historically the highest cash position is December and the lowest position occurs in August. We generally collect registration fees for the ASHL in the first three months of each season, and program fees are collected upon registration.

Cash flow from operating activities was $12.6 million in 2018 compared to $10.9 million in 2017. After accounting for additional bank financing, debt repayments, capital expenditures, and dividends paid, cash increased by $1.2 million in 2018.

The following table provides a reconciliation of EBITDA to the change in cash position for the last two years:

in thousands	**2018**	2017
EBITDA	**$ 14,670**	$ 12,791
Changes in working capital items	**998**	1,010
Net finance costs	**(2,092)**	(2,035)
Income tax expense	**(1,194)**	(779)
Foreign exchange	**188**	(49)
Cash flow from operations	**12,570**	10,938
Less:		
Mortgage principal reduction	**(10,260)**	(3,228)
New debt	**7,100**	1,750
Capital expenditures	**(6,303)**	(4,890)
Equipment lease payments	**(951)**	(1,080)
Dividends paid	**(1,200)**	(1,067)
Net proceeds on sale of assets	**10**	7
Effect of changes in foreign currency rates	**250**	(136)
Change in cash position for the year	**$ 1,216**	$ 2,294

Contractual Obligations

The following table presents the aggregate amount of future cash outflows for contractual obligations in each of the next five years and thereafter. The operating leases listed below for land and buildings fit the definition of off-balance sheet financing arrangements.

in thousands	2019	2020	2021	2022	2023	Thereafter	Total
Long-term debt:							
Mortgage principal and interest	$ 5,106	$ 5,087	$ 5,065	$ 5,045	$ 38,409	$ -	$ 58,712
Equipment leases, including interest	864	600	333	73	37	-	1,907
	5,970	5,687	5,398	5,118	38,446	-	60,619
Land and building operating leases (off balance sheet financing)	1,189	936	852	852	794	6,476	11,099
	$ 7,159	**$ 6,623**	**$ 6,250**	**$ 5,970**	**$ 39,240**	**$ 6,476**	**$ 71,718**

Share Capital

No new shares have been issued from treasury since November 2004, and the Company does not have a stock option plan.

	2018	2017
Shares issued and outstanding	**13,337,448**	13,337,448
Weighted average number of shares outstanding	**13,337,448**	13,337,448

The Company established a stock appreciation rights (SARs) plan in 2005 and it was renewed in 2016. The SARs plan provides eligible employees and directors with the right to receive cash equal to the appreciation of the Company's common shares subsequent to the date of the grant upon the exercise of rights. The granted SAR's vest in equal installments over a three-year period and expire three years from the grant date.

The Company has outstanding stock appreciation rights as follows:

	Number of Rights at December 31, 2018		
Expiry date	**Outstanding**	**Excercisable**	**Exercise Price**
November 29, 2019	350,502	180,585	$3.34
April 15, 2020	35,000	11,667	$3.85
June 15, 2020	58,333	11,667	$3.74
November 28, 2020	35,000	11,667	$3.96
March 23, 2021	35,000	-	$3.95
September 1, 2021	52,750	-	$4.76
	566,585	215,586	

During the year, 147,416 SARs were exercised at a weighted average exercise price of $3.37.

The liability related to the SARs program is adjusted quarterly based on the fair value of the SARs as estimated using the Black-Scholes pricing model. As at December 31, 2018 the Company recorded a liability in the amount of $0.5 million. For the year ended December 31, 2018, fair value measurement of the SARs liability resulted in net compensation expense of $0.5 million (2017 - $0.2 million) that was recognized in the statement of earnings and comprehensive income.

Transactions with Related Parties

Canlan's controlling shareholder, Bartrac Investments Ltd., owns approximately 10.1 million shares of the Company, or 75.5% of the outstanding shares. Bartrac's ownership position in TSX: ICE has remained unchanged since November 2004.

The Company did not record any related party transactions with Bartrac in 2018 and 2017.

The Company paid $0.2 million (2017 - $0.2 million) in directors' fees during 2018.

Financial Instruments

At January 1, 2018, the Company applied the new accounting standard, *IFRS 9 – Financial Instruments: Recognition and Measurement*. The application of IFRS 9 did not have significant effect on the Company's consolidated financial statements and no retrospective adjustments were necessary. See "***Accounting Standards"*** below.

The Company has the following financial instruments:

				2018
	Accounting classification	Fair value level	Carrying Amount	Fair value
Financial assets not measured at fair value:				
Cash and cash equivalents	Amortized cost	2	$19,845	$19,845
Accounts receivable	Amortized cost	2	3,361	3,361
Financial assets measured at fair value:				
Interest rate swap	Financial assets at FVTPL	2	1,077	1,077
Financial liabilities not measured at fair value:				
Accounts payable and accrued liabilities	Amortized cost	2	12,567	12,567
Debt	Amortized cost	2	50,811	49,843

				2017
	Accounting classification	Fair value level	Carrying Amount	Fair value
Financial assets not measured at fair value:				
Cash and cash equivalents	Loans and receivables	2	$18,629	$18,629
Accounts receivable	Loans and receivables	2	3,051	3,051
Financial assets measured at fair value:				
Interest rate swap	Held for trading	2	1,286	1,286
Financial liabilities not measured at fair value:				
Accounts payable and accrued liabilities	Amortized cost	2	10,105	10,105
Debt	Amortized cost	2	53,679	52,226

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 (seven-year term) to fix the interest rate on a portion of its debt. The fair value of this derivative instrument has been presented as an interest rate swap on the statement of financial position. Changes in fair value of the instrument are recognized in net earnings. For the year ended December 31, 2018, a loss of $0.2 million (gain of $1.0 million in 2017) was recognized.

The Company does not have held to maturity investments at December 31, 2018. The Company had no “other comprehensive income or loss” transactions related to financial instruments during the year ended December 31, 2018 and no opening or closing balances for accumulated other comprehensive income or loss related to financial instruments.

Disclosure Controls and Procedures

We have established and maintain disclosure controls and procedures designed to provide reasonable assurance that material information relating to the Company is made known to the appropriate level of management in a timely manner.

Based on current securities legislation in Canada, our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are required to certify that they have assessed the effectiveness of our disclosure controls and procedures as at December 31, 2018.

Our management has evaluated, under the supervision and with the participation of our CEO and CFO, the design and effectiveness of the Company’s disclosure controls and procedures as at the year ended December 31, 2018. Management has concluded that these disclosure controls and procedures, as defined in National Instrument 52-109 – Certification of Disclosure in Issuers Annual and Interim Filings (NI 52-109), are adequate and effective and that material information relating to the Company was made known to them and reported within the time periods specified under applicable securities legislation.

Our management, under the supervision of our CEO and CFO, has also designed and evaluated the effectiveness of the Company’s internal controls over financial reporting (ICFR) using the Internal Control – Integrated Framework as published by the Committee of Sponsoring Organization of the Treadway Commission (2013 Framework) (COSO) Framework. Based on our evaluation, management has concluded that ICFR, as defined in NI 52-109 and using the COSO integrated framework are effective as of December 31, 2018.

Risk Factors

Canlan is engaged primarily in the operation of multi-pad recreation facilities throughout North America, and is exposed to a number of risks and uncertainties that can affect operating performance and profitability. Our past performance is no guarantee of our performance in future periods.

Some of the risks and uncertainties we are exposed to, together with a description of management's action to minimize our exposure, are summarized below.

Leverage and Ability to Service Indebtedness

The Company's level of debt and the limitations imposed on it by its debt agreements could have important consequences, including the following:

- the Company will have to use a significant portion of its cash flow from operations for debt service, rather than for operations.

- the Company may not be able to obtain additional debt financing for future working capital, capital expenditures or other corporate purposes.

- the Company could be more vulnerable to economic downturns and less able to take advantage of significant business opportunities or to react to changes in market or industry conditions.

- the Company's less leveraged competitors could have a competitive advantage.

The Company's ability to pay the principal and interest on debt obligations will depend on its future performance. To a significant extent, our performance will be subject to general economic, financial and competitive factors. We can provide no assurances that its business will generate cash flow from operations sufficient to pay the Company's indebtedness, fund other liquidity needs or permit the Company to refinance its indebtedness. The Company can provide no assurances that it can secure any further credit facilities or that the terms of any such credit facilities will be favourable.

If the Company has difficulty servicing its debt, the Company may be forced to adjust capital expenditures, seek additional financing, sell assets, restructure or refinance the Company's debt, adjust dividends, or seek equity capital. The Company might not be able to implement any of these strategies on satisfactory terms, if at all. The Company's inability to generate sufficient cash flow or refinance its indebtedness would have a material adverse effect on the Company's financial condition, results of operations and ability to satisfy the Company's obligations.

Mitigating factors and strategies:

- The Company manages its capital with the objectives of maintaining a financial position suitable for servicing debt in accordance with repayment schedules, complying with debt covenants, and supporting our growth strategies.
- The Company maintains good relationships with its lenders through regular communications and reporting.

Infrastructure Expenditures

The Company's recreation facilities consist of plant and equipment that have useful lives estimated by management. Assets may become obsolete and may require replacement before the end of their estimated useful lives, which will necessitate significant capital expenditure.

Mitigating factors and strategies:

- The Company has implemented formal standard operating procedures and operational support visits to help protect our assets.
- The Company has a stringent asset repair and maintenance program.
- The Company has a long-term capital project program that plans capital expenditures in accordance with priorities and estimated useful lives.

Incurrence of Debt and the Granting of Security Interests

From time to time, the Company may enter into transactions and these transactions may be financed partially or wholly with short or long term debt, which may increase the Company's debt levels above industry standards and may require the Company to grant security interests in favour of third parties. Neither the Company's articles nor notice of articles limit the amount of indebtedness that the Company may incur or its ability to grant security interests. Should the Company default on any of its obligations under any secured credit facility, this could result in seizure of the Company's assets. The level of the Company's indebtedness from time to time could impair our ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Mitigating factors and strategies:

- The Company manages its capital with the objectives of maintaining a financial position suitable for servicing debt in accordance with repayment schedules, complying with debt covenants, and supporting our growth strategies.

Insurance

The Company develops and organizes sports leagues to play at the facilities it owns and operates. Due to the nature of the sport, incidents can occur. We purchase liability and accident insurance, the cost of which is dependent upon the history of the number of injury claims and the quantum of such claims. There is always a risk that the cost of acquiring sufficient insurance to cover any such injury claims will become prohibitive or that such insurance will become unavailable. The Company has obtained insurance coverage that it believes would ordinarily be maintained by an operator of facilities similar to that of the Company. The Company's insurance is subject to various limits and exclusions. Damage or destruction to any of our facilities or lawsuits arising from use of such facilities could result in claims that are excluded by, or exceed the limits of, the Company's insurance coverage.

Mitigating factors and strategies:

- Company maintains its facilities to high standards and continually monitors league activities and enforces a strict set of rules.
- Company has developed risk management procedures and emergency preparedness guides at all of its locations.
- Management works closely with insurance providers.

U.S. Operations

The Company's expansion strategies include certain markets in the U.S. As such, the Company faces the risks of operating in new markets where the demographics, consumer preferences, and economic conditions can be very different from Canadian markets in which the Company primarily operates. Should market conditions of new U.S. locations vary significantly from what was anticipated, the Company's financial results could be adversely affected.

In addition, the Company is exposed to currency risk on sales and purchases that are denominated in a currency other than the functional currency of the Company, the Canadian dollar. The currency in which these transactions are denominated is the U.S. dollar. Should the financial results of the Company's U.S. subsidiaries significantly fall short of targets, the Company could be 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. However, management currently expects that earnings from U.S. business activities are adequate to service the working capital needs of U.S. operations.

Mitigating factors and strategies:

- The Company performs due diligence to evaluate the structural condition of facilities, and conditions that support supply and demand in the marketplace.
- Management closely monitors the Canadian-U.S. foreign exchange rate and could utilize hedging instruments if cash required to fund U.S. operations exceeds cash flows generated from U.S. facilities. In addition, a reasonable amount of U.S. currency is maintained on hand to meet operating needs.

Seasonality of Operations

The Company's business cycle is highly seasonal with 57% of total revenues and virtually all of the operating profit being generated in the first and last quarters. This seasonality of operations impacts reported quarterly earnings. The operating results for any particular quarter is not necessarily a good indicator of operating results for the other fiscal quarters or the entire fiscal year. As a result of the seasonality, the highest cash flow period for the Company is in the fourth quarter when customer deposits for future ice contracts are received, and the lowest cash flow is in the summer months, when traffic is reduced.

Mitigating factors and strategies:

- Various programs are developed to increase traffic during the summer period.
- Variable operating costs are reduced during the summer period.
- Seasonal credit line has been made available by the Company's lender.

Competition

The recreation industry is highly competitive and Canlan competes with other private and municipal operators in various major markets. Other private operators may have more resources and less debt than Canlan, and municipal operators can operate at a loss for an indefinite period without the same negative consequences such losses would have on private companies.

Mitigating factors and strategies:

- Canlan has developed customer loyalty by providing superior customer service and facilities.
- The ice rink industry is capital intensive with high start up expenses; therefore barriers to enter the business exist.
- We have developed expertise in all aspects of the ice rink development and multi-sport complex operations.

Employee and Union Relations

The Company has unionized employees at four of its facilities. The presence of a unionized work force increases the possibility that a labour dispute will affect operations at a facility. The Company may not be able to negotiate a new contract on favorable terms, which could result in increased operating costs as a result of higher wages or benefits paid to its unionized workers. If unionized workers engage in a strike or other work stoppage, the Company could experience a significant disruption in its operations or higher ongoing labour costs, which could have material adverse effects on the business, financial condition, results of operations and cash flows.

Mitigating factors and strategies:

- The Company maintains positive relationships with the unions and management and union representatives have bargained in good faith.
- The Company garners assistance and guidance from professional labour consultants where needed.

Key Personnel

The Company's future success depends, to a large extent, on the efforts and abilities of its executive officers and other key personnel. As the Company's ability to retain these key personnel and executive officers is important to its success and growth, the loss of such personnel could adversely affect the Company's business, financial condition, cash flows and results of operations.

Mitigating factors and strategies:

- The Company has established compensation policies for its executive officers that are commensurate with their responsibilities and with market conditions.
- The Company maintains an open and candid working environment where executive officers can offer input into business strategies and decisions.

Utility Costs

Electricity, natural gas and water are significant components of operating costs of our facilities and the Company is susceptible to fluctuations in the market price of energy and related regulatory charges. In addition, the Company may experience power fluctuations or outages or cannot maintain adequate sources of natural gas and water. These factors may have a material adverse effect on the Company's business, financial conditions, results of operations and cash flows.

Mitigating factors and strategies:

- If deemed appropriate, the Company enters into medium-term energy contracts to mitigate the price fluctuations of gas and electricity.
- The Company carefully manages utility consumption through standard operating procedures and capital asset program.
- The Company has implemented an equipment replacement program, which utilizes newer technology for lights and refrigeration equipment.
- The Company has hired a full-time energy manager.

Privacy and Security of Information

In the ordinary course of our business we receive, process and store information from our guests and others, including personal information of our guests and employees often through online operations that depend upon the secure communication of information over public networks and in reliance on third party service providers. The secure operation of the networks and systems on which this information is stored, processed and maintained is critical to our business operations and strategy. Although we maintain systems to protect this information and rely on systems security of third-party software service providers, these systems must be continuously monitored and updated and could be compromised, in which case our guest information could become subject to intrusion, tampering or theft. Any compromise of our data security systems or the security systems of our third-party service providers could have an adverse impact on our reputation, be costly to remediate and could have a material adverse effect on our business.

Mitigating factors and strategies:

- The Company has deployed network security measures and performs periodic security compliance audits.
- Information security has been made a part of the Company's Enterprise Risk Management Strategy to provide oversight over this particular risk.

Interest Rate Risk

Mortgage debt of $17.8 million, is subject to variable interest rates. For every 1% change in base market rates, interest expense will change by $0.2 million per annum.

Mitigating factors and strategies:

- The Company has fixed the interest rate on $33.4 million or 65% of its loans.

Control by Principal Shareholder and Liquidity of Common Shares

The principal shareholder, Bartrac Investments Ltd. holds 10,075,947 Common Shares and controls approximately 75.5% of the aggregate voting power of the Corporation, which will allow it to control substantially all the actions taken by the shareholders of the Company, including the election of the directors. In addition, at the date of this MD&A, a Trust in the U.S. holds 2,285,800 Common shares, which represents 17.1% of total outstanding Common Shares. Such concentration of ownership could also have the effect of delaying, deterring, or preventing a change of control of the Company that might otherwise be beneficial to its shareholders and may also discourage acquisition bids for the Company and limit the amount certain investors may be willing to pay for the Common Shares.

Critical Accounting Policies and Estimates

Canlan's significant accounting policies are described in Note 3 to the consolidated financial statements. The preparation of the consolidated financial statements in conformity with IFRS requires us 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:

Revenue Recognition

Revenue from sport surface rental contracts, programs and leagues is recognized over time as games and lessons are played. Deferred revenue relates to amounts received in advance for the Company's adult recreational leagues. 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.

As at January 1, 2018, the Company applied the new accounting standard, *IFRS 15 – Revenue from Contracts with Customers*, to account for revenue recognition. The application of the new standards did not have significant effect on the Company's consolidated financial statements and no retrospective adjustments were necessary. See "***Accounting Standards"*** below.

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.

Impairment and Recoverability of Property Plant and Equipment

When impairment indicators exist, 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. Judgments are required in assessing impairment indicators.

Useful Lives of Property Plant and Equipment

Property, plant, and equipment are depreciated on a straight-line basis over their estimated useful life. Approximately 78% 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.

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.

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.

Accounting Standards

Accounting Standards adopted in 2018

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 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.

There was also no material impact on recognized revenue for the year ended December 31, 2018 from the adoption of the new revenue standard.

Certain additional disclosures are required under the new revenue standard which are 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 concluded 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.

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 new expected credit loss model will result in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual loss event. This differs from the current approach where the allowance recorded on performing loans is designed to capture only losses that have been incurred whether or not they have been specifically identified. The expected credit loss model applies to amortized cost financial assets, debt investments at FVOCI, off-balance sheet loan commitments, and financial guarantee contracts.

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.

Effective January 1, 2018, the Company adopted this standard. There was no significant effect on the consolidated financial statements of the Company and no retrospective adjustments were required upon adoption.

Future Accounting Standards

IFRS 16 – Leases was issued in January 2016 and sets out a new model for lease accounting, replacing IAS 17 – Leases. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months and for which the underlying asset is not of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease repayments. The right-of-use asset is initially measured at cost and subsequently depreciated. The lease liability is initially measured at the present value of the lease payments and subsequently adjusted for interest and lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors.

IFRS 16 will be adopted by the Company effective January 1, 2019 under the modified retrospective approach. Based on its preliminary assessment, the Company has identified lease contracts, all are for 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 and amortization and financial costs as at the date of application of IFRS 16.

Based on management's assessment, when the Company applies IFRS 16 for the first time as at January 1, 2019, total assets will increase by approximately $5.6 million with an increase to total liabilities of approximately $6.6 million and deficit will be increased by $1.0 million. If the Company had applied IFRS 16 effective January 1, 2018, total assets would have increased by approximately $6.4 million with an increase in total liabilities of approximately $7.5 million and deficit would have been increased by $1.1 million.

Ivan Wu
Chief Financial Officer

CANLAN ICE SPORTS CORP.

YEARS ENDED DECEMBER 31, 2018 AND 2017

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Canlan Ice Sports Corp.

Opinion

We have audited the consolidated financial statements of Canlan Ice Sports Corp. (the Entity), which comprise:

- the consolidated statements of financial positions as at December 31, 2018 and December 31, 2017
- the consolidated statements of earnings and comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statement of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this auditors' report is Arnold Singh.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
March 21, 2019

CANLAN ICE SPORTS CORP.

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

Years ended December 31, 2018 and 2017

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents (note 4)	$ 19,845	$ 18,629
Accounts receivable	3,361	3,051
Inventory (note 5)	1,099	1,094
Prepaid and other expenses	1,101	597
	25,406	23,371
Non-current assets:		
Property, plant and equipment - facilities (note 6)	99,582	98,596
Investment properties (note 7)	-	550
Assets held-for-sale (note 8)	596	-
Interest rate swap	1,077	1,286
Deferred tax assets (note 16(b))	1,694	1,661
Other assets	580	256
	103,529	102,349
	$ 128,935	$ 125,720
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 9)	$ 12,567	$ 10,105
Deferred revenue and customer deposits	12,881	13,209
Current portion of:		
Obligations under finance leases (note 10)	777	897
Debt (note 11)	3,195	5,383
	29,420	29,594
Non-current liabilities:		
Obligations under finance leases (note 10)	937	1,444
Debt (note 11)	47,616	48,296
Deferred tax liabilities (note 16(b))	1,138	1,188
	49,691	50,928
Total liabilities	79,111	80,522
Shareholders' equity:		
Share capital (note 12)	63,109	63,109
Contributed surplus	543	543
Foreign currency translation reserve	3,775	2,365
Deficit	(17,603)	(20,819)
	49,824	45,198
	$ 128,935	$ 125,720

Commitments and contingencies (note 15)
Subsequent events (note 23)

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, 2018 and 2017

	2018	2017
Revenue:		
Ice rink and recreational facilities (note 20)	$ 87,638	$ 85,411
Expenses (note 22):		
Ice rink and recreational facilities:		
Salaries, wages and benefits	32,769	32,874
Selling and customer service	11,303	11,320
Utilities	6,889	7,604
Cost of goods sold	5,697	5,735
Repairs and maintenance	5,730	4,576
Property tax	3,433	3,404
Facility lease	1,380	1,188
	67,201	66,701
Earnings from ice rink and recreational facilities before the undernoted	20,437	18,710
General and administration expenses (notes 14 and 22)	5,767	5,919
Earnings before the undernoted	14,670	12,791
Other expenses (income) (note 22):		
Depreciation	6,929	6,951
Gain on sale of assets	(10)	(7)
Foreign exchange loss (gain)	(91)	24
	6,828	6,968
Finance income (costs):		
Finance income	250	124
Finance costs	(2,289)	(2,241)
Gain (loss) on interest rate swap (note 17(a))	(209)	1,027
	(2,248)	(1,090)
Earnings before income taxes	5,594	4,733
Income tax expense (recovery) (note 16):		
Current	1,194	779
Deferred	(83)	397
	1,111	1,176
Net earnings	$ 4,483	$ 3,557
Other comprehensive income (loss):		
Items that may be reclassified subsequently to net earnings:		
Foreign currency translation differences	1,410	(857)
Total comprehensive income	$ 5,893	$ 2,700
Basic and fully diluted earnings per share	$ 0.34	$ 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, 2018 and 2017

	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	-	-	-	3,557	3,557
Other comprehensive loss	-	-	(857)	-	(857)
Dividends to common shareholders	-	-	-	(1,067)	(1,067)
Balance at December 31, 2017	63,109	543	2,365	(20,819)	45,198
Net earnings	-	-	-	4,483	4,483
Other comprehensive income	-	-	1,410	-	1,410
Dividends to common shareholders	-	-	-	(1,267)	(1,267)
Balance at December 31, 2018	$ 63,109	$ 543	$ 3,775	$ (17,603)	$ 49,824

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, 2018 and 2017

	2018	2017
Cash provided by (used in):		
Operating:		
Net earnings	$ 4,483	$ 3,557
Adjustments for:		
Depreciation	6,929	6,951
Gain on sale of assets	(10)	(7)
Net finance costs	2,248	1,090
Deferred income taxes	(83)	397
Foreign exchange loss (gain)	97	(25)
Net change in non-cash working capital (note 21)	998	1,010
Interest paid (note 11)	(2,342)	(2,159)
Interest received	250	124
	12,570	10,938
Financing:		
Principal repayments of debt	(10,260)	(3,228)
Increase in principal of debt	7,100	1,750
Principal repayments on obligations under finance lease	(951)	(1,080)
Payment of dividends on common shares	(1,200)	(1,067)
	(5,311)	(3,625)
Investments:		
Net proceeds on sale of assets	10	7
Expenditures on ice rink and recreational facilities	(5,899)	(4,827)
Expenditures on other assets	(404)	(63)
	(6,293)	(4,883)
Effect of changes in foreign currency rates on cash and cash equivalents	250	(136)
Increase in cash and cash equivalents	1,216	2,294
Cash and cash equivalents, beginning of year	18,629	16,335
Cash and cash equivalents, end of year	$ 19,845	$ 18,629

Supplemental cash flow information (note 21)

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

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, 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) 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

(*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.

(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, 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.

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 77% of the Company's total assets are comprised of recreational properties. The 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.

(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.

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

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

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) Assets held-for-sale:

Non-current assets are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. Assets held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell. Assets classified as held-for-sale are no longer amortized or depreciated. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognised in profit or loss.

(f) Other assets:

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

(g) 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.

(h) 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.

(i) Revenue recognition:

Effective January 1, 2018, the Company has adopted IFRS 15 *Revenue from Contracts with Customers*.

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 retained earnings (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. There was also no material impact on recognized revenue in the year ended December 31, 2018 from the adoption of 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.

(*i*) Revenue recognition accounting policy applicable from January 1, 2018:

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.

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

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.

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.

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.

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.

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.

(*ii*) Revenue recognition accounting policy applicable before January 1, 2018:

Ice and field time:

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

Goods sold:

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

Sponsorship:

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

Management contracts:

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

Rental income:

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

(j) 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.

(k) Financial instruments:

Effective January 1, 2018, the Company adopted this 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 new expected credit loss model will result in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual loss event. This differs from the current approach where the allowance recorded on performing financial assets is designed to capture only losses that have been incurred whether or not they have been specifically identified. The expected credit loss model applies to the Company’s financial assets measured at amortized cost.

There was no significant effect on the consolidated financial statements of the Company and no measurement adjustments were required upon adoption.

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. 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).

(*i*) Financial instruments accounting policy applicable from January 1, 2018:

Recognition and initial measurement:

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial liabilities are recognized initially at fair value and are classified as amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for trading, it is a derivative or it is designated as such on initial recognition.

Classification and subsequent measurement:

The Company classifies its financial assets between those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and those to be measured at amortized cost.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at fair value through profit or loss (FVTPL):

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at fair value through other comprehensive income (FVOCI) if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL.

Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense is recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

The Company's financial instruments measured at amortized cost include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and debt.

Derivative instruments are financial contracts whose value is derived from interest rates, foreign exchange rates or other financial or commodity indices. This instrument has not been designated as a hedge and is measured at FVTPL. 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 does not have any financial instruments measured at FVOCI.

Impairment of financial assets:

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit impaired. A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes obtaining evidence of significant financial difficulty of the customer or a breach of contract such as a default or being more than 90 days past due.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amounts of the assets.

Loss allowances for trade receivables are measured at an amount equal to lifetime expected credit losses ("ECLs"). Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. ECLs are probability-weighted estimate of credit losses, and credit losses are measured as the present value of cash shortfalls from a financial asset.

(*ii*) Financial instruments accounting policy applicable before January 1, 2018:

Non-derivative financial assets:

The Company had the following non-derivative financial assets: loans and receivables. Such financial assets had fixed or determinable payments that were not quoted in an active market. Such assets were recognized initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, loans and receivables were measured at amortized cost using the effective interest method, less any impairment losses.

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

Non-derivative financial liabilities:

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

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. This instrument had not been designated as a hedge and was marked to market. The resulting unrealized gains and losses during the period were 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 were recognized as adjustments to interest expense which were recognized within finance costs.

Impairment of financial assets:

A financial asset not carried at fair value through profit or loss was assessed at each reporting date to determine whether there was objective evidence that it is impaired. A financial asset was impaired if objective evidence indicated that a loss event had 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 could be estimated reliably.

Objective evidence that financial assets were impaired included 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 would enter bankruptcy.

An impairment loss in respect of a financial asset measured at amortized cost was 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 was reversed through net earnings.

(l) 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.

(m) 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. The Company has 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 $379,000 (2017 - $362,000) 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.

(n) 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.

(o) 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.

(p) Impairment of 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.

(q) 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.

(r) New standard and interpretations not yet adopted:

IFRS 16 - *Leases* was issued in January 2016 and sets out a new model for lease accounting, replacing IAS 17 - *Leases*. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months and for which the underlying asset is not of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease repayments. The right-of-use asset is initially measured at cost and subsequently depreciated. The lease liability is initially measured at the present value of the lease payments and subsequently adjusted for interest and lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors.

IFRS 16 was adopted by the Company effective January 1, 2019 under the modified retrospective approach. Based on its preliminary assessment, 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 and amortization and financial costs.

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

Based on management's assessment, when the Company applies IFRS 16 for the first time as at January 1, 2019, total assets will increase by approximately $5,654,000 with an increase to total liabilities of approximately $6,637,000 and deficit will be increased by $983,000. If the Company had applied IFRS 16 effective January 1, 2018, total assets would have increased by approximately $6,444,000 with an increase in total liabilities of approximately $7,544,000 and deficit would have been increased by $1,100,000.

4. Restricted cash:

Cash and cash equivalents include $880,000 (2017 - $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 (note 15(a)(*iii*)). These funds are maintained as operating and capital expenditure reserves and the balance will change as reserve requirements are adjusted.

5. Inventory:

	2018	2017
Sports store	$ 735	$ 771
Food and beverage	364	323
	$ 1,099	$ 1,094

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.

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

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
Cost										
Balance at December 31, 2016	$ 16,870	$ 116,684	$ 2,045	$ 5,413	$ 17,049	$ 13,543	$ 10,412	$ 5,313	$ 326	$ 187,655
Reclassification	-	4	-	-	-	-	-	-	(4)	-
Additions	-	202	9	-	1,510	1,731	690	192	493	4,827
Disposals	-	-	-	-	-	-	-	(69)	-	(69)
Effect of movements in exchange rates	(221)	(1,253)	-	(36)	(163)	(111)	(93)	(23)	-	(1,900)
Balance at December 31, 2017	16,649	115,637	2,054	5,377	18,396	15,163	11,009	5,413	815	190,513
Reclassification	(26)	30	-	-	374	-	17	-	(421)	(26)
Additions	-	2,247	220	-	2,255	914	215	303	36	6,190
Disposals	-	-	-	-	-	-	(11)	(100)	-	(111)
Effect of movements in exchange rates	275	1,560	-	47	236	149	127	40	-	2,434
Balance at December 31, 2018	$ 16,898	$ 119,474	$ 2,274	$ 5,424	$ 21,261	$ 16,226	$ 11,357	$ 5,656	$ 430	$ 199,000
Accumulated depreciation and impairment losses										
Balance at December 31, 2016	$ -	$ (51,866)	$ (861)	$ (2,401)	$ (7,906)	$ (9,471)	$ (9,058)	$ (4,158)	$ -	$ (85,721)
Depreciation for the year	-	(3,817)	(215)	(218)	(707)	(953)	(537)	(393)	-	(6,840)
Disposals	-	-	-	-	-	-	-	76	-	76
Effect of movements in exchange rates	-	358	-	6	29	74	79	22	-	568
Balance at December 31, 2017	-	(55,325)	(1,076)	(2,613)	(8,584)	(10,350)	(9,516)	(4,453)	-	(91,917)
Depreciation for the year	-	(3,805)	(187)	(220)	(678)	(1,014)	(516)	(397)	-	(6,817)
Disposals	-	-	-	-	-	-	11	100	-	111
Effect of movements in exchange rates	-	(489)	-	(11)	(47)	(114)	(104)	(30)	-	(795)
Balance at December 31, 2018	$ -	$ (59,619)	$ (1,263)	$ (2,844)	$ (9,309)	$ (11,478)	$ (10,125)	$ (4,780)	$ -	$ (99,418)
Carrying amounts										
Balance at December 31, 2017	$ 16,649	$ 60,312	$ 978	$ 2,764	$ 9,812	$ 4,813	$ 1,493	$ 960	$ 815	$ 98,596
Balance at December 31, 2018	16,898	59,855	1,011	2,580	11,952	4,748	1,232	876	430	99,582

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

For the year ended December 31, 2018, no impairment losses were recognized.

Included in property, plant, and equipment - facilities are assets under finance leases with a cost of $4,071,000 (2017 - $4,649,000) and accumulated depreciation of $1,214,000 (2017 - $1,163,000).

7. Investment properties:

		Cost		Accumulated amortization		Carrying amount
December 31, 2016	$	566	$	-	$	566
Effect of movements in exchange rate		(16)		-		(16)
December 31, 2017		550		-		550
Effect of movements in exchange rate		20		-		20
Reclassified to assets held-for-sale		(570)		-		(570)
December 31, 2018	$	-	$	-	$	-

On December 31, 2017, the fair value of the Company's investment properties, which consist of land parcels, was $1,625,000 determined using valuation techniques incorporating discounted cash flows and expertise of an independent local real estate agent not related to the Company. The Company's investment properties are categorized as Level 3 within the fair value hierarchy. The cash flows were discounted at a pre-tax rate of 4.66% 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.

As at December 31, 2018, the investment properties were reclassified as assets held-for-sale (see note 8).

For the years ended December 31, 2017 and 2018, no impairment losses were recognized. In 2018, income earned on investment properties was $104,000 (2017 - $99,000) with no direct expenses (2017 - nil).

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

8. Assets held-for-sale:

	Cost	Accumulated amortization	Carrying amount
December 31, 2017	$ -	$ -	$ -
Reclassified from property, plant and equipment - facilities	26	-	26
Reclassified from investment properties	570	-	570
December 31, 2018	$ 596	$ -	$ 596

The Company's assets held-for-sale consist of land parcels that were held-for-sale as at December 31, 2018 and are expected to be sold within twelve months. 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.

9. Accounts payable and accrued liabilities:

Accounts payable and accrued liabilities consist of the following:

	2018	2017
Trade payables	$ 3,491	$ 3,360
Wages payable	3,372	3,473
Other accrued liabilities	3,913	2,086
Dividends payable	333	267
Indirect tax payables	570	533
Stock appreciation rights	468	140
Income tax payable	420	246
	$ 12,567	$ 10,105

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

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

10. Obligations under finance leases:

Total minimum lease payments are as follows:

	2018	2017
Not later than one year	$ 864	$ 994
Later than one year and not later than five years	1,043	1,598
Later than five years	-	-
	1,907	2,592
Interest (rates vary from 3% to 7%)	193	251
Present value of minimum finance lease payments	1,714	2,341
Current portion	777	897
Long-term portion	$ 937	$ 1,444

Lease obligations are secured directly by the leased assets.

Interest of $112,000 (2017 - $138,000) relating to finance lease obligations has been included in finance costs.

11. Debt:

	Maturity dates	Interest rates	2018	2017
Fixed rate	2023	3.52%	$ 33,408	$ 35,498
Variable rate	2023	Prime + 0.50%	8,744	9,219
	2023	Prime + 0.50%	2,080	2,183
	2019	LIBOR + 2.50%	-	4,849
	2020	LIBOR + 2.50%	-	2,239
	2023	CDOR + 2.10%	6,942	-
			51,174	53,988
Deferred financing costs			(363)	(309)
			50,811	53,679
Current portion			3,195	5,383
Non-current portion			$ 47,616	$ 48,296

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

As at December 31, 2018, 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 Prime rate plus 0.50% per annum payable monthly. The Company entered into an interest rate swap contract (note 17a), maturing on May 25, 2023, to fix the interest rate at 3.52% per annum payable monthly. At December 31, 2018, the balance outstanding was $33,408,000;
- $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, 2018, the balance outstanding was $8,744,000;
- $20,000,000 revolving capital expenditure loan amortized over 15 years, maturing on May 25, 2023, interest at Prime rate plus 0.50% per annum. At December 31, 2018, the balance outstanding was $2,080,000;
- 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 December 31, 2018, the balance outstanding was $6,942,000; 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 $106,000 (2017 - $81,000) was recorded in finance costs.

12. 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: December 31, 2018 and 2017	13,337,448	$ 63,109

On November 13, 2018, the Company declared a quarterly dividend of $0.025 per share which was paid on January 16, 2019. In addition, the Company paid quarterly dividends of $0.02 per share on April 17, 2018, and $0.025 per share on each of July 17, 2018, and October 16, 2018 respectively.

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

13. Stock-based compensation:

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

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

	Number of SARs	Weighted average exercise price
Number of SARs outstanding, December 31, 2016	667,501	$ 3.27
Granted	209,999	3.71
Exercised	(146,083)	3.04
Forfeited	(69,999)	3.47
Number of SARs outstanding, December 31, 2017	661,418	$ 3.44
Granted	87,750	4.44
Exercised	(147,416)	3.37
Forfeited	(35,167)	3.34
Balance, December 31, 2018	566,585	$ 3.62
Exercisable, December 31, 2017	134,737	$ 3.34
Exercisable, December 31, 2018	215,585	$ 3.42

The following table summarizes information about the stock appreciation rights outstanding at December 31, 2018:

	Rights outstanding			Rights exercisable	
Exercise price	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
$ 3.34	350,502	11 months	$ 3.34	180,585	$ 3.34
3.85	35,000	16 months	3.85	11,667	3.85
3.74	58,333	18 months	3.74	11,667	3.74
3.96	35,000	23 months	3.96	11,667	3.96
3.95	35,000	27 months	3.95	-	3.95
4.76	52,750	32 months	4.76	-	4.76

During the year ended December 31, 2018, the Company recognized compensation expense of $529,000 (2017 – $219,000) in respect of the SARs Plan. This amount was calculated in accordance with the fair value method of accounting. At December 31, 2018, the SARs liability included within accounts payable and accrued liabilities was $468,000 (2017 - $140,000).

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

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

	2018	2017
Risk free interest rate	1.93%	1.77%
Expected dividend yield	1.92%	2.01%
Expected lives of rights	11 to 32 months	3 to 35 months
Expected volatility	16% - 23%	8% - 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 11 months to 32 months.

14. General and administration expenses:

General and administration expenses consist of the following:

	2018	2017
Salaries, wages and benefits	$ 3,983	$ 4,289
Professional and regulatory fees	483	693
Office	419	340
Travel	202	250
Stock appreciation rights	529	219
Other	151	128
	$ 5,767	$ 5,919

15. Commitments and contingencies:

(a) At December 31, 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	$ 1,189
Later than one year and not later than five years	3,434
Later than five years	6,476

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

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

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 March 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, 2018, the Company has letters of guarantee outstanding with various vendors in the amount of $1,105,000 (2017 - $1,105,000).

16. Income taxes:

(a) The major factors which caused variations from the Company's expected combined Canadian and U.S. income tax rate of 26% for 2018 (2017 - 27%) were as follows:

	2018	2017
Statutory rate applied to earnings before income taxes	$ 1,434	$ 1,296
Change in deferred tax assets not recognized	(117)	(1,925)
Substantively enacted tax rate change	(63)	1,468
Foreign currency translation differences	(55)	144
Permanent differences and other	(88)	193
Income tax expense	$ 1,111	$ 1,176

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

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

	2018	2017
Deferred income tax assets:		
Unused tax losses	$ 438	$ 311
Deferred revenue	70	113
Properties	656	656
Financing fees	225	360
Other	305	221
	1,694	1,661
Deferred income tax liability:		
Properties	(760)	(771)
Other	(378)	(417)
	(1,138)	(1,188)
Net deferred income tax assets	$ 556	$ 473

The following deferred tax assets have not been recognized as at December 31, 2018 and December 31, 2017:

	2018	2017
U.S. tax losses set to expire between 2028 and 2036	$ 2,017	$ 2,136
Tax losses that do not expire	-	-
Deductible temporary differences	61	61
	$ 2,078	$ 2,197

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

17. Financial instruments:

(a) Fair value:

The Company has the following financial instruments:

				2018
	Accounting classification	Fair value level	Carrying amount	Fair value
Financial assets not measured at fair value:				
Cash and cash equivalents	Amortized cost	2	$ 19,845	$ 19,845
Accounts receivable	Amortized cost	2	3,361	3,361
Financial assets measured at fair value:				
Interest rate swap	Financial assets at FVTPL	2	1,077	1,077
Financial liabilities not measured at fair value:				
Accounts payable and accrued liabilities	Amortized cost	2	12,567	12,567
Debt	Amortized cost	2	50,811	49,843

				2017
	Accounting classification	Fair value level	Carrying amount	Fair value
Financial assets not measured at fair value:				
Cash and cash equivalents	Loans and receivables	2	$ 18,629	$ 18,629
Accounts receivable	Loans and receivables	2	3,051	3,051
Financial assets measured at fair value:				
Interest rate swap	Held for trading	2	1,286	1,286
Financial liabilities not measured at fair value:				
Accounts payable and accrued liabilities	Amortized cost	2	10,105	10,105
Debt	Amortized cost	2	53,679	52,226

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 (seven-year term) to fix the interest rate on a portion of its debt (note 11). 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 year ended December 31, 2018, a loss of $209,000 (gain of $1,027,000 in 2017) was recognized.

(b) Financial risk management:

(*i*) Interest rate risk:

The terms of the Company's outstanding debt are described in note 11. 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 $178,000 (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. 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 December 31, 2018, the Company has a working capital deficiency of $4,014,000 (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 11).

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	2019	2020	2021	2022	2023	Thereafter	Total
Accounts payable and accrued liabilities	$ 12,567	$ -	$ -	$ -	$ -	$ -	$ 12,567
Long-term debt:							
Mortgage principal and interest	5,106	5,087	5,065	5,045	38,409	-	58,712
Equipment leases, including interest	864	600	333	73	37	-	1,907
	5,970	5,687	5,398	5,118	38,446	-	60,619
Land and building operating leases	1,189	936	852	852	794	6,476	11,099
	$ 19,726	$ 6,623	$ 6,250	$ 5,970	$ 39,240	$ 6,476	$ 84,285

(*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 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; however, cash generated from U.S. business activities is used to service working capital needs of U.S. operations. As at December 31, 2018, the Company has no outstanding loans denominated in the U.S. dollar.

18. 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 December 31, 2018 and 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 years ended December 31, 2018 and 2017.

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

19. Related party transactions:

(a) During the year ended December 31, 2018, the Company expensed $207,000 (2017 - $195,000) 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 year ended December 31, 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:

	2018	2017
Short-term employee benefits	$ 1,833	$ 1,867
Stock appreciation rights	529	219
Post employment benefits	63	66
	$ 2,425	$ 2,152

(d) Directors and executive officers participate in the Company's stock appreciation rights program (note 13). During the year ended December 31, 2018, the Company paid $168,000 (2017 - $137,000) related to stock appreciation rights exercised.

20. 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:

	2018	2017
Ice and field sales	$ 69,008	$ 67,658
Food and beverage	13,116	12,317
Sports store	1,782	1,965
Sponsorship	1,383	1,258
Space rental	1,408	1,311
Management and consulting fees	258	262
Other	683	640
	$ 87,638	$ 85,411

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

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

(b) Geographic:

	2018			2017		
	Canada	USA	Total	Canada	USA	Total
Revenue	$ 77,339	$ 10,299	$ 87,638	$ 75,261	$ 10,150	$ 85,411
Non-current assets	82,842	20,687	103,529	81,955	19,108	101,063
Total assets	104,262	24,673	128,935	103,688	22,032	125,720

21. Supplemental cash flow information:

	2018	2017
(a) Net changes in non-cash working capital:		
Accounts receivable	$ (310)	$ (614)
Inventory	(5)	44
Prepaid and other expenses	(504)	220
Accounts payable and accrued liabilities	2,395	650
Deferred revenue and customer deposits	(328)	574
Effect of change in foreign currency	(250)	136
	$ 998	$ 1,010
(b) Non-cash transactions:		
Finance lease obligations	$ 324	$ -

(c) Changes in liabilities arising from financing activities:

			Non-cash changes		
	December 31, 2017	Cash flow changes	Foreign exchange movement	Other	December 31, 2018
Debt	$ 53,679	$ (3,160)	$ 346	$ (54)	$ 50,811
Obligations under finance leases	2,341	(627)	-	-	1,714
Dividends payable	267	66	-	-	333
	$ 56,287	$ (3,721)	$ 346	$ (54)	$ 52,858

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

22. 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:

	2018	2017
Ice rink and recreational facilities expense	$ 74,018	$ 73,541
General and administrative expenses	$ 5,879	$ 6,030
Other expenses (income)	$ (101)	$ 17

The changes in the above table, as compared to the consolidated statement of earnings and comprehensive income, relate to depreciation of $6,929,000 (2017 - $6,951,000) being allocated from other expenses to ice rink and recreational facilities in the amount of $6,817,000 (2017 - $6,840,000), and to general and administrative expenses in the amount of $112,000 (2017 - $111,000).

23. Subsequent events:

(a) In January 2019, the Company finalized plans to sell its recreation property located in Montreal, Quebec. The Company intends to continue facility operations until May 5, 2019 and then close the facility in preparation for an intended sale completion on or before December 31, 2019. As at December 31, 2018, the property did not meet the criteria for the classification as assets held-for-sale, as such, the property is presented as part of property, plant and equipment in the statements of financial position as at December 31, 2018 (note 6).

(b) On March 19, 2019, the Company completed the purchase of a recreation facility in Chicago, Illinois for US$10,000,000. The purchase price was financed with a combination of the Company's cash and existing capital expenditure credit facility (note 11).

FIVE YEAR REVIEW

Statements of Financial Position

in thousands, except statistics	2018	2017	2016	2015	2014
Assets:					
Property, plant and equipment - facilities	**$ 99,582**	$ 98,596	$ 101,934	$ 103,631	$ 97,682
Other	**27,659**	25,463	21,857	15,376	19,032
Deferred tax assets	**1,694**	1,661	1,768	1,597	1,308
	$ 128,935	$ 125,720	$ 125,559	$ 120,604	$ 118,022
Liabilities:					
Debt	**$ 50,811**	$ 53,679	$ 55,593	$ 53,152	$ 51,771
Other	**27,162**	25,655	25,503	23,067	20,495
Deferred tax liabilities	**1,138**	1,188	898	657	971
	$ 79,111	$ 80,522	$ 81,994	$ 76,876	$ 73,237
Shareholders' Equity:					
Share capital	**$ 63,109**	$ 63,109	$ 63,109	$ 63,109	$ 63,109
Contributed surplus	**543**	543	543	543	543
Foreign currency translation reserve	**3,775**	2,365	3,222	3,612	-
Deficit	**(17,603)**	(20,819)	(23,309)	(23,536)	(18,867)
	$ 49,824	$ 45,198	$ 43,565	$ 43,728	$ 44,785
Statistics:					
Debt to equity ratio	**1.05:1**	1.24:1	1.35:1	1.28:1	1.20:1
Share price range	**$3.83-5.94**	$3.20-3.98	$3.15-4.00	$3.06-3.75	$2.30-3.34

Statements of Earnings and Comprehensive Income

in thousands, except share and per share amounts	2018	2017	2016	2015	2014
Facility revenue	**$ 87,638**	$ 85,411	$ 83,079	$ 79,449	$ 75,732
Facility operating expenses	**67,201**	66,701	65,717	63,769	60,089
General and administrative	**5,767**	5,919	5,194	4,304	4,559
	72,968	72,620	70,911	68,073	64,648
Earnings before interest, taxes, depreciation and amortization	**14,670**	12,791	12,168	11,376	11,084
Other expenses (gains):					
Depreciation	**6,929**	6,951	7,017	6,954	6,132
Net finance cost	**2,248**	1,090	2,311	2,888	2,532
Fee on settlement of debt	**-**	-	2,318	-	-
Impairment loss	**-**	-	-	4,070	-
Other	**(101)**	17	(495)	1,069	619
Income tax expense (recovery)	**1,111**	1,176	(277)	(3)	905
	10,187	9,234	10,874	14,978	10,188
Net earnings (loss)	**$ 4,483**	$ 3,557	$ 1,294	$ (3,602)	$ 896
Other comprehensive income (loss) related to foreign currency translation differences	1,410	(857)	(390)	3,612	-
Total comprehensive income	**$ 5,893**	$ 2,700	$ 904	$ 10	$ 896
Earnings (loss) per common share	**$0.34**	$0.27	$0.10	($0.27)	$0.07
Issued and average shares outstanding at year end	**13,337,448**	13,337,448	13,337,448	13,337,448	13,337,448

CORPORATE INFORMATION

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Director
British Columbia

Geoffrey J. Barker
Director
British Columbia

Charles Allen
Director
Ontario

William G. Bullis
Director
British Columbia

Victor D'Souza
Director
Ontario

Doug Brownridge
Director
British Columbia

Joey St-Aubin
President & CEO
Ontario

Officers

W. Grant Ballantyne
Chairman

Joey St-Aubin
President & CEO

Michael F. Gellard
Executive Vice President

Mark Faubert
Senior Vice-President & COO

Ivan Wu
CFO

Mark E. Reynolds
Vice-President
Human Resources
& Chief Privacy Officer

Hailey Clark
Vice-President
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Greg Porcellato
Vice-President
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