



CANLAN ICE SPORTS CORP.

YEARS ENDED DECEMBER 31, 2022 AND 2021



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INDEPENDENT AUDITOR'S 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 position as at December 31, 2022 and December 31, 2021;
- the consolidated statements of earnings (loss) and comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements 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, 2022 and December 31, 2021, 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 “**Auditor’s Responsibilities for the Audit of the Financial Statements**” section of our auditor’s 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 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be the key audit matter to be communicated in our auditor's report.

Assessment of Property, plant and equipment – facilities for indicators of impairment

Description of the matter

We draw attention to Notes 2(d), 3(o) and 6 to the financial statements. The Entity measures property, plant and equipment – facilities, consisting of 15 recreational properties, at cost less accumulated depreciation and impairment losses. The Entity defines each recreational property as a separate cash-generating unit for purposes of assessing indicators of impairment. Each cash-generating unit is comprised of property, plant and equipment which were recorded at a carrying amount of \$95,523 thousand in aggregate. At each reporting date, the Entity performs an assessment for indicators of impairment for each cash-generating unit. At December 31, 2022, the Entity identified no indicators of impairment for each of its cash-generating units. Accordingly, no quantitative impairment tests were performed.

Why the matter is a key audit matter

We identified the assessment of property, plant and equipment- facilities for indicators of impairment as a key audit matter. This matter represented an area of significant risk of material misstatement, and evaluation of this matter required significant auditor judgement.

How the matter was addressed in the audit

The primary procedures we performed to address the key audit matter included the following:

We evaluated the Entity's identification and assessment for indicators of impairment, including comparing the current year performance of the cash-generating units against historical results. We also performed an independent assessment of impairment indicators taking into account current market conditions, as well as the economic and legal environment.

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 auditor's 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 auditor's 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 auditor's report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditor's 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 auditor's 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.

Auditor's 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 auditor's 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 auditor's 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 auditor's 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.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because of the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditor's report is Lorna Nimmons.

Chartered Professional Accountants

Vancouver, Canada
March 24, 2023

CANLAN ICE SPORTS CORP.

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

Years ended December 31, 2022 and 2021

| | 2022 | 2021 |
|--|-------------------|-------------------|
| Assets | | |
| Current assets: | | |
| Cash (note 4) | \$ 18,532 | \$ 12,530 |
| Accounts receivable | 2,184 | 2,298 |
| Inventory (note 5) | 607 | 490 |
| Prepaid and other expenses | 1,062 | 788 |
| Interest rate swap (note 11(b) and note 17(a)) | 411 | - |
| | <u>22,796</u> | <u>16,106</u> |
| Non-current assets: | | |
| Property, plant and equipment – facilities (note 6) | 95,523 | 97,432 |
| Deferred tax assets (note 16(b)) | 2,282 | 1,911 |
| Investment (notes 9 and 10) | 350 | 350 |
| Other assets | 556 | 813 |
| Interest rate swap (note 11(b) and note 17(a)) | 206 | - |
| | <u>98,917</u> | <u>100,506</u> |
| | <u>\$ 121,713</u> | <u>\$ 116,612</u> |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities (note 10 and 17(b)) | \$ 9,693 | \$ 8,152 |
| Deferred revenue and customer deposits | 14,081 | 12,029 |
| Interest rate swap (note 11 (b) and note 17(a)) | - | 28 |
| Current portion of: | | |
| Lease liabilities (note 7) | 5,515 | 1,251 |
| Debt (note 11) | 1,745 | 4,436 |
| | <u>31,034</u> | <u>25,896</u> |
| Non-current liabilities: | | |
| Lease liabilities (note 7) | 4,816 | 9,970 |
| Debt (note 11) | 38,067 | 39,360 |
| Deferred tax liabilities (note 16(b)) | 1,145 | 970 |
| | <u>44,028</u> | <u>50,300</u> |
| Total liabilities | 75,062 | 76,196 |
| Shareholders' equity: | | |
| Share capital (note 12) | 63,109 | 63,109 |
| Contributed surplus | 543 | 543 |
| Foreign currency translation reserve | 3,662 | 1,757 |
| Deficit | (20,663) | (24,993) |
| | <u>46,651</u> | <u>40,416</u> |
| | <u>\$ 121,713</u> | <u>\$ 116,612</u> |

Commitments and contingencies (note 15)
Subsequent event (notes 6 and 11)

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

Approved on behalf of the Board:

/s/ Victor D'Souza Director /s/ Joey St-Aubin Director

CANLAN ICE SPORTS CORP.

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

Years ended December 31, 2022 and 2021

| | 2022 | 2021 |
|---|-----------------|-------------------|
| Revenue: | | |
| Ice rink and recreational facilities (note 20) | \$ 73,728 | \$ 40,393 |
| Other income – government subsidy (note 3(h) and 23) | - | 6,537 |
| Expenses (note 22): | | |
| Ice rink and recreational facilities: | | |
| Salaries, wages and benefits (note 13) | 29,044 | 19,022 |
| Selling and customer service | 8,772 | 5,288 |
| Utilities | 5,366 | 4,486 |
| Cost of goods sold | 3,611 | 1,063 |
| Repairs and maintenance | 6,127 | 2,596 |
| Property tax | 2,809 | 2,898 |
| | <u>55,729</u> | <u>35,353</u> |
| Earnings from ice rink and recreational facilities before the undernoted | 17,999 | 11,577 |
| General and administration expenses (notes 13, 14 and 22) | 7,355 | 5,779 |
| Earnings before the undernoted | 10,644 | 5,798 |
| Other income (expenses) (note 22): | | |
| Depreciation | (8,379) | (7,801) |
| Gain on early lease termination (note 7) | 4,530 | - |
| Gain on sale of assets (note 8) | 106 | 1,510 |
| Foreign exchange gain | 11 | 19 |
| | <u>(3,732)</u> | <u>(6,272)</u> |
| Finance income (expenses): | | |
| Finance income | 208 | 40 |
| Finance expense | (2,636) | (2,625) |
| Gain on interest rate swap (note 17(a)) | 645 | 513 |
| | <u>(1,783)</u> | <u>(2,072)</u> |
| Earnings (loss) before income taxes | 5,129 | (2,546) |
| Income tax expense (recovery) (note 16): | | |
| Current | 595 | (2,050) |
| Deferred | (196) | 596 |
| | <u>399</u> | <u>(1,454)</u> |
| Net earnings (loss) for the year | 4,730 | (1,092) |
| Other comprehensive income (loss): | | |
| Items that may be reclassified subsequently to net earnings (loss): | | |
| Foreign currency translation differences | 1,905 | (200) |
| Total comprehensive income (loss) | <u>\$ 6,635</u> | <u>\$ (1,292)</u> |
| Basic and fully diluted earnings (loss) per share | <u>\$ 0.35</u> | <u>\$ (0.08)</u> |
| 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, 2022 and 2021

| | Share capital | Contributed surplus | Foreign currency translation reserve | Deficit | Total |
|----------------------------------|------------------|------------------------|---|-------------|-----------|
| Balance at January 1, 2021 | \$ 63,109 | \$ 543 | \$ 1,957 | \$ (23,901) | \$ 41,708 |
| Loss for the year | - | - | - | (1,092) | (1,092) |
| Other comprehensive loss | - | - | (200) | - | (200) |
| Balance at December 31, 2021 | 63,109 | 543 | 1,757 | (24,993) | 40,416 |
| Net earnings for the year | - | - | - | 4,730 | 4,730 |
| Other comprehensive income | - | - | 1,905 | - | 1,905 |
| Dividends to common shareholders | - | - | - | (400) | (400) |
| Balance at December 31, 2022 | \$ 63,109 | \$ 543 | \$ 3,662 | \$ (20,663) | \$ 46,651 |

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, 2022 and 2021

| | 2022 | 2021 |
|---|------------------|------------------|
| Cash provided by (used in): | | |
| Operations: | | |
| Net earnings (loss) for the year | \$ 4,730 | \$ (1,092) |
| Adjustments for: | | |
| Depreciation | 8,379 | 7,801 |
| Gain on early lease termination | (4,530) | - |
| Gain on sale of assets | (106) | (1,510) |
| Net finance expense | 1,783 | 2,072 |
| Deferred income taxes | (196) | 596 |
| Foreign exchange gain | (143) | (45) |
| Reduction on obligations under lease liabilities | 306 | - |
| Net change in non-cash working capital (note 21) | 2,644 | 6,773 |
| Interest paid (note 11) | (2,500) | (2,499) |
| Interest received | 210 | 40 |
| | <u>10,577</u> | <u>12,136</u> |
| Financing: | | |
| Principal repayments of debt | (4,121) | (14,499) |
| Increase in principal of debt | - | 2,000 |
| Principal repayments on obligations under lease liabilities | (1,777) | (1,216) |
| Net proceeds on early lease termination (note 7) | 4,448 | - |
| | <u>(1,450)</u> | <u>(13,715)</u> |
| Investments: | | |
| Net proceeds on sale of assets | 299 | 7,233 |
| Expenditures on ice rink and recreational facilities | (3,660) | (525) |
| Expenditures on other assets | (36) | (59) |
| | <u>(3,397)</u> | <u>6,649</u> |
| Effect of changes in foreign currency rates on cash | 272 | (20) |
| Increase in cash | 6,002 | 5,050 |
| Cash, beginning of year | 12,530 | 7,480 |
| Cash, end of year | <u>\$ 18,532</u> | <u>\$ 12,530</u> |

Supplemental cash flow information (note 21)

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

CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2022 and 2021

1. Nature of operations:

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.

Effects of COVID-19 Pandemic

Since March 2020 when the COVID-19 outbreak was declared a pandemic, the Company’s business operations have been impacted by business interruptions. Most recently, with the exception of the Ontario facilities, for which public health orders required the Company to suspend its operations in January 2022, all facilities were able to operate at normal capacities during the year ended December 31, 2022. As at the date of issuance of these consolidated financial statements, all of the Company’s facilities are in full operation and the Company’s liquidity position has returned to pre-pandemic levels.

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 approved and authorized for issue by the Board of Directors on March 23, 2023.

(b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis with the exception of 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 (loss) 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 (loss) and accumulated in the foreign currency translation reserve, which is a separate component of shareholders’ equity.

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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 (loss).

(d) Significant judgments, estimates and assumptions:

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, and the disclosure of contingent liabilities. Key sources of uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities in future periods.

In the process of applying the Company's accounting policies, management has made judgments, estimates and assumptions. Significant judgments, estimates and assumptions 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. Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

(i) Recoverability of property, plant and equipment - facilities

At each reporting date, the Company performs an assessment for indicators of impairment for each cash-generating unit. If any such indication exists, the Company estimates the cash-generating unit's recoverable amount based on the greater of its value in use and its fair value less costs to sell. When the carrying amount exceeds the recoverable amount, an impairment loss is recognized in an amount equal to the excess. In determining the recoverable amount of the cash-generating units under the value in use method, significant assumptions include estimated revenue and expense growth rates, pre-tax discount rates, and useful lives of property, plant and equipment. In determining the recoverable amount of the cash-generating units under the fair value less costs to sell method, significant assumptions include the capitalization rate and the estimated value per square foot of the recreational property.

(ii) Useful lives of property, plant, and equipment

Property, plant, and equipment are depreciated on a straight-line basis over their estimated useful life and residual values which are determined through exercise of judgment. Approximately 78% 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 expensed.

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Notes to Consolidated Financial Statements

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Years ended December 31, 2022 and 2021

(iii) Deferred income tax

Deferred income tax assets and liabilities require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize or recognize net deferred tax assets, if any, at the reporting date could be impacted.

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:

- Canlan Ventures Ltd.
- 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 and 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.

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Notes to Consolidated Financial Statements

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Years ended December 31, 2022 and 2021

(c) Property, plant, and equipment:

(i) Recognition and measurement:

Items of property, plant, and equipment are measured at cost less accumulated depreciation and 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 recognized in the statement of earnings (loss) and comprehensive income (loss) 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 (loss) 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 (loss) 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.

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Years ended December 31, 2022 and 2021

(d) 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 recognized in profit or loss.

(e) Other assets:

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

(f) Leases:

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

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

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

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

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

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

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

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(g) Revenue recognition:

The Company evaluates all contractual arrangements, 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 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. 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 services. Revenue is recognized over time as the management/consulting services are provided. Invoices are payable at the beginning of each month.

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(h) Government grant:

A government grant is recognized when there is reasonable assurance that the Company will comply with any conditions attached to the grant and the grant will be received. The grant is recognized in other income on a systematic basis.

(i) Fair value measurement:

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

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

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

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

(j) Financial instruments:

Recognition and initial measurement:

At initial recognition, a financial asset not at fair value through profit or loss (FVTPL) is measured at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL 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 (loss), 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 FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

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- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- the investment is held mainly to execute the Company's strategic objectives.

A debt investment is measured at 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, accounts receivable, accounts payable and accrued liabilities, lease liabilities, and debt.

Derivative instruments are financial contracts whose values are derived from interest rates, foreign exchange rates or other financial or commodity indices. The Company holds interest rate swap contracts at December 31, 2022 and 2021. These contracts have not been designated as a hedge and are measured at FVTPL. The resulting unrealized gains and losses during the year on the interest rate swap contracts are recorded in net earnings (loss) with a corresponding asset or liability recorded on the consolidated statement of financial position. Payments and receipts under the interest rate swap contracts are recognized as adjustments to interest expense which are recognized within finance costs.

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 and note 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.

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(k) Earnings (loss) per share:

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

(l) Employee benefits:

(i) Defined contribution plans:

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in net earnings (loss) in the period in which services are rendered by employees.

(ii) Long-term incentive plan:

The Company’s long-term incentive plan provides cash compensation to officers and directors based upon the future enterprise value of the Company as calculated by a specified formula. Compensation expense is recognized based upon the best estimate of future calculated enterprise value.

(m) Finance income and finance expenses:

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 (loss) as it accrues.

Finance expenses 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 (loss) using the effective interest method.

(n) Income tax:

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

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.

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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 increased or reduced dependent on the probability that the related tax benefit will be realized.

(o) Impairment of properties, plant and equipment - facilities:

The Company's property, plant, and equipment – facilities is assessed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. The recoverable amount of an asset or cash-generating unit ("CGU") is the greater of its value in use and its fair value less costs to sell.

A CGU is defined under IAS 36 as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other groups of assets. The Company generates cash inflows from its recreational properties and each recreational property is a 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.

The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its estimated recoverable amount. Impairment losses are recognised in net earnings (loss) in the consolidated statements of earnings (loss) and comprehensive income (loss).

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. The fair value less costs to sell is based on valuations performed by independent external appraisers accredited by professional institutes with experience in the location of the property being valued and reviewed by management. In determining fair value less costs to sell, recent market transactions are taken into account as well as stabilized net income and relevant capitalization rates.

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The Company bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Company's CGU's to which individual assets are allocated.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed if there has been a change in the assumptions used to determine the recoverable amount since the last impairment loss was recognized. 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.

(p) Segment reporting:

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

4. Restricted cash

Cash includes \$500,000 (2021 – \$500,000) of restricted cash representing funds held in trust in accordance with the terms of a facility lease agreement with a third party. These funds are maintained as operating reserves.

5. Inventory:

| | 2022 | | 2021 | |
|-------------------|------|-----|------|-----|
| Sports store | \$ | 256 | \$ | 277 |
| Food and beverage | | 351 | | 213 |
| | \$ | 607 | \$ | 490 |

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 (loss) and comprehensive income (loss).

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6. Property, plant and equipment - facilities:

| | Land | Buildings and building improvements | Leasehold improvements | Rink board systems | Refrigeration equipment | Machinery and equipment | Computers, furniture and fixtures | Ice resurfacing equipment | Work in process | Total |
|---------------------------------------|-----------|-------------------------------------|------------------------|--------------------|-------------------------|-------------------------|-----------------------------------|---------------------------|-----------------|--------------|
| Cost | | | | | | | | | | |
| Balance at January 1, 2021 | \$ 16,346 | \$ 115,381 | \$ 2,528 | \$ 4,802 | \$ 22,230 | \$ 18,776 | \$ 11,177 | \$ 6,170 | \$ 5 | \$ 197,415 |
| Reclassification | - | 329 | - | - | - | (21) | 26 | - | (5) | 329 |
| Additions | - | 4,938 | - | - | (25) | 151 | 352 | 556 | 27 | 5,999 |
| Disposals | - | (349) | (37) | - | (16) | (217) | (147) | (181) | - | (947) |
| Effect of movements in exchange rates | (17) | (107) | - | (2) | (12) | (12) | (6) | (3) | - | (159) |
| Balance at December 31, 2021 | \$ 16,329 | \$ 120,192 | \$ 2,491 | \$ 4,800 | \$ 22,177 | \$ 18,677 | \$ 11,402 | \$ 6,542 | \$ 27 | \$ 202,637 |
| Reclassification | - | - | - | - | 27 | - | - | - | (27) | - |
| Additions | - | 859 | - | - | 51 | 943 | 974 | 1,276 | 443 | 4,546 |
| Disposals | - | (952) | (1,914) | (197) | - | (186) | (236) | (1,042) | - | (4,527) |
| Effect of movements in exchange rates | 277 | 1,697 | - | 33 | 196 | 206 | 126 | 64 | 6 | 2,605 |
| Balance at December 31, 2022 | \$ 16,606 | \$ 121,796 | \$ 577 | \$ 4,636 | \$ 22,451 | \$ 19,640 | \$ 12,266 | \$ 6,840 | \$ 449 | \$ 205,261 |
| Accumulated depreciation | | | | | | | | | | |
| Balance at January 1, 2021 | \$ - | \$ (57,700) | \$ (1,664) | \$ (2,981) | \$ (10,023) | \$ (11,746) | \$ (9,557) | \$ (4,973) | \$ - | \$ (98,644) |
| Depreciation for the year | - | (4,087) | (202) | (192) | (819) | (1,101) | (557) | (556) | - | (7,514) |
| Disposals | - | 349 | 37 | - | 16 | 217 | 147 | 181 | - | 947 |
| Effect of movements in exchange rates | - | 4 | - | - | 1 | - | 1 | - | - | 6 |
| Balance at December 31, 2021 | \$ - | \$ (61,434) | \$ (1,829) | \$ (3,173) | \$ (10,825) | \$ (12,630) | \$ (9,966) | \$ (5,348) | \$ - | \$ (105,205) |
| Depreciation for the year | - | (4,202) | (570) | (200) | (829) | (1,134) | (657) | (493) | - | (8,085) |
| Disposals | - | 728 | 1,915 | 117 | - | 186 | 236 | 924 | - | 4,106 |
| Effect of movements in exchange rates | - | (272) | - | (12) | (60) | (83) | (88) | (39) | - | (554) |
| Balance at December 31, 2022 | \$ - | \$ (65,180) | \$ (484) | \$ (3,268) | \$ (11,714) | \$ (13,661) | \$ (10,475) | \$ (4,956) | \$ - | \$ (109,738) |
| Carrying amounts: | | | | | | | | | | |
| Balance at December 31, 2021 | \$ 16,329 | \$ 58,758 | \$ 662 | \$ 1,627 | \$ 11,352 | \$ 6,047 | \$ 1,436 | \$ 1,194 | \$ 27 | \$ 97,432 |
| Balance at December 31, 2022 | 16,606 | 56,616 | 93 | 1,368 | 10,737 | 5,979 | 1,791 | 1,884 | 449 | 95,523 |

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

| | 2022 | 2021 |
|--|------------------|------------------|
| Property, plant and equipment owned | \$ 85,733 | \$ 86,946 |
| Right-of-use-property, plant and equipment leased (note 7 (a)) | 9,790 | 10,486 |
| | \$ 95,523 | \$ 97,432 |

On April 30, 2021, the Company entered into an agreement to lease a sports complex facility in Libertyville, Illinois, commencing on July 1, 2021. The two-year lease agreement contains an option to purchase the facility (option is at the Company's discretion) that would expire on June 30, 2023. On February 28, 2023, the Company exercised its option to purchase the sports complex facility in Libertyville, Illinois for \$5,103,000 (\$3,750,000 USD). The purchase was financed using available cash on hand and additional bank financing of \$3,200,000.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, plus a purchase option price and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The Company recognized a right-of-use asset and right-of-use liability of \$4,938,000 at the lease commencement date (note 7).

For the year ended December 31, 2022 and 2021, no impairment losses were recognized in relation to property, plant and equipment – facilities.

7. Right-of-use assets:

(a) The Company has the following right-of-use assets which are included in property, plant and equipment – facilities on the balance sheet (note 6):

| | Equipment | Building and building improvements | Total |
|-------------------|-----------------|------------------------------------|-----------------|
| December 31, 2020 | \$ 2,658 | \$ 3,961 | \$ 6,619 |
| Additions | 566 | 4,938 | 5,504 |
| Depreciation | (429) | (650) | (1,079) |
| Buyout of assets | (532) | - | (532) |
| Foreign exchange | - | (26) | (26) |
| December 31, 2021 | 2,263 | 8,223 | 10,486 |
| Additions | 886 | - | 886 |
| Depreciation | (469) | (708) | (1,177) |
| Disposal | - | (223) | (223) |
| Buyout of assets | (500) | - | (500) |
| Foreign exchange | - | 318 | 318 |
| December 31, 2022 | \$ 2,180 | \$ 7,610 | \$ 9,790 |

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The 2021 addition of \$4,938,000 in right-of-use assets relates to a lease agreement of a sports complex that the Company entered into, in April 2021, and subsequently purchased in February 2023 (see note 6).

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

| | 2022 | 2021 |
|---|------------------|------------------|
| Maturity analysis – contractual undiscounted cash flows: | | |
| Less than one year | \$ 5,766 | \$ 1,745 |
| One to five years | 2,623 | 8,007 |
| More than five years | 5,413 | 5,308 |
| Total undiscounted lease liabilities | \$ 13,802 | \$ 15,060 |
| Lease liabilities included in the statements of financial position: | | |
| Current | \$ 5,515 | \$ 1,251 |
| Non-current | 4,816 | 9,970 |
| | \$ 10,331 | \$ 11,221 |

During the year ended December 31, 2022, interest expense related to lease liabilities was \$507,000 (2021 - \$474,000). Total lease payments made during 2022 were \$1,756,000 (2021 - \$1,661,000). Total lease expense related to leases of low-value items were \$121,000 during the year ended December 31, 2022 (2021 - \$117,000).

In August 2022, the Company agreed to early-terminate a lease of a sports complex for consideration of \$4,450,000. On September 1, 2022, the carrying amount of the right-of-use assets of \$223,000 and liability of \$306,000 were removed from the statement of financial position and a gain of \$4,530,000 was recognized in other income in the statement of earnings (loss).

8. Assets held-for-sale:

In September 2021, the Company completed the sale of the recreational property in Quebec for net proceeds of \$7,174,000 and realized a gain on sale of \$1,450,000. The recreational property was previously included in assets-held-for sale.

9. Investment:

In September 2020, the Company acquired 22.69 shares, representing a 14.25% equity interest in a start-up technology company (investee). This investment is initially accounted for on a cost basis and subsequently measured at FVOCI. The investee is a private company that develops software to facilitate sport surface rentals in recreation facilities in large metropolitan centers and in July 2021, the Company implemented the use of this software to sell spot ice rentals. The shares owned by the Company have an intrinsic value of \$350,000 and as at December 31, 2022, the Company's investment was diluted to a 10.25% (2021 – 11.73%) equity interest in the investee as the start-up technology company continued to raise capital. As consideration for the equity interest, the Company is obligated to provide marketing services to the investee to help promote its software application. Accordingly, a current liability of \$350,000 (2021 - \$350,000) has been included in accounts payable and accrued liabilities in the consolidated statements of financial position (note 10).

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10. Accounts payable and accrued liabilities:

Accounts payable and accrued liabilities consist of the following:

| | 2022 | 2021 |
|-----------------------------|-----------------|-----------------|
| Trade payables | \$ 2,239 | \$ 1,709 |
| Wages payable | 3,307 | 2,914 |
| Other accrued liabilities | 2,500 | 2,677 |
| Marketing services (note 9) | 350 | 350 |
| Dividends payable | 400 | - |
| Indirect tax payables | 617 | 502 |
| Income tax payable | 280 | - |
| | \$ 9,693 | \$ 8,152 |

All current trade and accrued liabilities are payable within 12 months and bear no interest.

11. Debt:

(a) Credit facilities:

| | Maturity dates | Interest rates | | 2022 | 2021 |
|---|-------------------|-------------------|-------|------------------|------------------|
| Variable rate - fixed with interest rate swap contracts (note 11(b)) | 2027 | BA + 1.85% | (i) | \$ 24,949 | \$ 27,235 |
| | 2027 | BA + 1.85% | (ii) | 5,213 | - |
| | 2027 | BA + 1.85% | (iii) | 2,164 | - |
| | 2027 | BA + 1.85% | (iv) | 2,335 | - |
| Variable rate | 2027 | CDOR + 2.10% | (v) | 5,187 | 5,641 |
| | 2023 | Prime + 0.50% | | - | 6,343 |
| | 2023 | Prime + 0.50% | | - | 2,065 |
| | 2023 | Prime + 1.00% | | - | 1,947 |
| | 2023 | BA + 2.10% | | - | 738 |
| | | | | 39,848 | 43,969 |
| Deferred financing costs | | | | (36) | (173) |
| | | | | 39,812 | 43,796 |
| Current portion | | | | 1,745 | 4,436 |
| Non-current portion | | | | \$ 38,067 | \$ 39,360 |

During the year ended December 31, 2022, the Company refinanced its bank debt and as at December 31, 2022, total bank debt consists of the following:

- (i) \$25,337,000 non-revolving loan amortized over 25 years, maturing on November 30, 2027, interest at BA rate plus 1.85% payable monthly. Previously, the Company had entered into an interest rate swap contract (note 11(b)(i) and 17(a)) to fix the interest rate at 3.52% per annum, payable monthly, on this credit facility, which will mature on June 21, 2023. The Company has also entered into a new forward interest rate swap contract (note 11(b)(iii) and 17(a)) with a term from June 21, 2023 to November 21, 2027, to fix the interest rate at 5.34% per annum payable monthly once the

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previous interest rate contract matures. At December 31, 2022, the balance outstanding was \$24,949,000;

- (ii) \$5,213,000 non-revolving loan amortized over 25 years, maturing on November 30, 2027, interest at BA rate plus 1.85% per annum payable monthly. The Company entered into an interest rate swap contract (note 11(b)(ii) and 17(a)), maturing on November 30, 2027, to fix the interest rate at 5.50% per annum payable monthly. At December 31, 2022, the balance outstanding was \$5,213,000;
- (iii) \$10,000,000 revolving loan amortized over 25 years, maturing on November 30, 2027, interest at BA rate plus 1.85% per annum payable monthly. The Company entered into an interest rate swap contract (note 11(b)(ii) and 17(a)), maturing on November 30, 2027, to fix the interest rate at 5.50% per annum payable monthly. At December 31, 2022, the balance outstanding was \$2,164,000;
- (iv) \$20,000,000 revolving capital expenditure loan amortized over 25 years, maturing on November 30, 2027, interest at BA rate plus 1.85% per annum payable monthly. The Company entered into an interest rate swap contract (note 11(b)(ii) and 17(a)), maturing on November 30, 2027, to fix the interest rate at 5.50% per annum payable monthly. At December 31, 2022, the balance outstanding was \$2,335,000;
- (v) \$5,325,000 loan amortized over 15 years, maturing on September 30, 2027, interest at CDOR plus 2.1% per annum payable monthly. At December 31, 2022, the balance outstanding was \$5,187,000. Subsequent to December 31, 2022, the Company entered into an interest rate swap contract in January 2023 to fix the interest rate at 5.70%; and
- (vi) \$745,000 demand revolving operating loan, interest at Prime rate plus 0.25% per annum. No amounts have been drawn on this loan to date.

In 2020, the Company's senior lenders amended the debt covenants for the 2020 and 2021 fiscal years due to potential impacts of the COVID-19 pandemic on business operations. The Company was in compliance with these amended covenants in 2021. Commencing on January 1, 2022, the debt covenants reverted back to their original terms and the Company was also in compliance with its covenants in 2022.

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 \$175,000 (2021 - \$127,000) was recorded in finance costs.

(b) Derivative instruments:

The Company uses derivative instruments in accordance with its overall risk management policies. The Company enters into interest rate swap agreements which exchange a receipt of floating interest for a payment of fixed interest to reduce the Company's exposure to interest rate variability on its outstanding floating-rate debt. The Company has not designated, for accounting purposes, its interest rate swap as a cash flow hedge of its debt.

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As of December 31, 2022, the Company has the following interest rate swap contracts:

| Note Reference | Interest rate Index | Term | Swap rate | Notional amount | | Fair value | | |
|----------------|---------------------|------|-----------|-----------------|-----------|------------|--------|---------|
| | | | | 2022 | 2021 | 2022 | 2021 | |
| (i) | 11 (a)(i) | BA | 2016-2023 | 3.52% | \$ 24,267 | \$ 26,675 | \$ 411 | \$ (28) |
| (ii) | 11 (a)(ii)(iii)(iv) | BA | 2022-2027 | 5.50% | 9,712 | - | 60 | - |
| (iii) | 11 (a)(i) | BA | 2023-2027 | 5.34% | 24,449 | - | 146 | - |

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, 2022 and 2021 | 13,337,448 | \$ 63,109 |

On March 24, 2020, the Company suspended its quarterly dividend policy to preserve liquidity in response to the COVID-19 pandemic. No distributions were declared or paid in 2021.

On November 11, 2022, the Company declared a quarterly dividend of \$0.03 per share, which was paid on January 16, 2023.

13. Employee benefits:

(a) Defined contribution plans:

The Company has a defined contribution plan for its employees whereby the Company matches contributions to a maximum of 4% of salaries. Included in included in salaries, wages and benefits within ice rink and recreational facilities was \$162,000 (2021 - \$ 161,000) and included in general and administrative expenses was \$115,000 (2021 - \$116,000).

(b) Long-term incentive plan:

On January 1, 2020, a new long-term incentive plan, (the LTI Plan) commenced and units were granted to eligible directors and employees of the company. The LTI Plan granted rights on January 1, 2020 that would vest and be exercisable at December 31, 2022. The amount compensated to rights holders would be equal to the increase in "enterprise value" per common share of the company from December 31, 2018 to December 31, 2022. The "enterprise value" per common share is calculated based on a formula set out in the LTI Plan.

During the year ended December 31, 2022, no compensation expense with respect to the LTI Plan was recorded and no liability was included within accounts payable and accrued liabilities at December 31, 2022 as the calculated enterprise value at the exercise date was below the value as at December 31, 2018.

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14. General and administration expenses:

General and administration expenses consist of the following:

| | 2022 | 2021 |
|----------------------------------|----------|----------|
| Salaries, wages and benefits | \$ 5,719 | \$ 4,608 |
| Professional and regulatory fees | 543 | 510 |
| Office | 651 | 530 |
| Travel | 254 | 44 |
| Other | 188 | 87 |
| | \$ 7,355 | \$ 5,779 |

15. Commitments and contingencies:

- (a) Due to the nature of the sports and recreation business, various physical injury lawsuits involving the Company are pending. Management believes, based on legal counsels' opinions, that the outcome will not materially affect the Company's financial position.
- (b) At December 31, 2022, the Company has letters of guarantee outstanding with various vendors in the amount of \$5,000 (2021 - \$5,000).

16. Income taxes:

- (a) The major factors which caused variations from the Company's expected combined Canadian and U.S. income tax rate of 24% for 2022 (2021 - 22%) were as follows:

| | 2022 | 2021 |
|---|----------|------------|
| Statutory rate applied to earnings (loss) before income taxes | \$ 1,250 | \$ (554) |
| Change in deferred tax assets not recognized | (1,174) | (741) |
| Substantively enacted tax rate change | 130 | 177 |
| Foreign currency translation differences | 15 | (178) |
| Permanent differences and other | 178 | (158) |
| Income tax expense (recovery) | \$ 399 | \$ (1,454) |

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

| | 2022 | 2021 |
|--------------------------------|-----------------|---------------|
| Deferred income tax assets: | | |
| Unused tax losses | \$ 1,287 | \$ 1,065 |
| Properties | 917 | 671 |
| Other | 78 | 175 |
| | <u>2,282</u> | <u>1,911</u> |
| Deferred income tax liability: | | |
| Properties | (980) | (934) |
| Other | (165) | (36) |
| | <u>(1,145)</u> | <u>(970)</u> |
| Net deferred income tax assets | <u>\$ 1,137</u> | <u>\$ 941</u> |

The following deferred tax assets have not been recognized as at December 31, 2022 and December 31, 2021:

| | 2022 | 2021 |
|---|-----------------|-----------------|
| U.S. tax losses set to expire between 2023 and 2037 | \$ 35 | \$ 847 |
| Tax losses that do not expire | 1,144 | 1,355 |
| | <u>\$ 1,179</u> | <u>\$ 2,202</u> |

17. Financial instruments:

- (a) Fair value:

The Company has the following financial instruments:

| | | | 2022 | | 2021 |
|---|---------------------------|------------------|-----------------|----|------------|
| | Accounting classification | Fair value level | Carrying amount | | Fair value |
| Financial assets not measured at fair value: | | | | | |
| Cash (i) | Amortized cost | 2 | \$ 18,532 | \$ | 18,532 |
| Accounts receivable (i) | Amortized cost | 2 | 2,184 | | 2,184 |
| Financial assets measured at fair value: | | | | | |
| Investment (iv) | FVOCI | 3 | 350 | | 350 |
| Interest rate swap (iii) | Financial assets at FVTPL | 2 | 617 | | 617 |
| Financial liabilities not measured at fair value: | | | | | |
| Accounts payable and accrued liabilities (i) | Amortized cost | 2 | 9,693 | | 9,693 |
| Lease liabilities (ii) | Amortized cost | 2 | 10,331 | | 10,331 |
| Debt | Amortized cost | 2 | 39,812 | | 39,848 |

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| | | | | 2021 |
|---|-----------------------------------|---------------------|--------------------|---------------|
| | Accounting classification | Fair value level | Carrying amount | Fair value |
| Financial assets not measured at fair value: | | | | |
| Cash (i) | Amortized cost | 2 | \$ 12,530 | \$ 12,530 |
| Accounts receivable (i) | Amortized cost | 2 | 2,298 | 2,298 |
| Financial assets measured at fair value: | | | | |
| Investment (iv) | FVOCI | 3 | 350 | 350 |
| Financial liabilities measured at fair value: | | | | |
| Interest rate swap (iii) | Financial liabilities at FVTPL | 2 | 28 | 28 |
| Financial liabilities not measured at fair value: | | | | |
| Accounts payable and accrued liabilities (i) | Amortized cost | 2 | 8,152 | 8,152 |
| Lease liabilities (ii) | Amortized cost | 2 | 11,221 | 11,221 |
| Debt | Amortized cost | 2 | 43,796 | 43,693 |

(i) The carrying values of cash, accounts receivable, and accounts payable and accrued liabilities are considered by management to approximate their fair values due to their short-term nature.

(ii) The carrying values of lease liabilities are considered by management to approximate their fair values due to the lease rate at reporting date being consistent with the lease rate at inception date.

(iii) In June 2016 and November 2022, respectively, the Company entered into interest rate swap agreements (seven-year and five-year term) to fix the interest rate on certain of its debt (note 11). 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 earnings for the year. For the year ended December 31, 2022, a gain of \$645,000 (2021 - \$513,000) was recognized.

(iv) The carrying value of the investment is considered by management to approximate its fair value.

(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 \$52,000 (2021 - \$167,000) per annum.

(ii) Liquidity risk:

Liquidity risk is the risk from the Company's potential inability to meet its financial obligations. To mitigate this risk, 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, cash flow from operating activities, and a long-term debt arrangement that includes revolving credit lines that can be utilized for working capital and capital expenditures (note 11). Cash is comprised

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of cash balances and deposits with financial institutions. 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, 2022, the Company has a working capital deficiency of \$8,238,000 (2021 – \$9,790,000). Excluding the effect of the purchase option attached to the right-of-use lease liability (note 6), the Company's working capital deficiency was \$3,703,000 at December 31, 2022. The Company anticipates that sufficient cash flows will be generated from operations to meet its current liabilities as they become due.

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 | 2023 | 2024 | 2025 | 2026 | 2027 | Thereafter | Total |
|--|----------|----------|----------|----------|----------|------------|-----------|
| Accounts payable and accrued liabilities | \$ 9,693 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 9,693 |
| Debt: | | | | | | | |
| Mortgage principal and interest | 3,633 | 3,777 | 3,671 | 3,573 | 37,965 | - | 52,619 |
| Lease liabilities, including interest | 5,766 | 1,030 | 649 | 550 | 394 | 5,413 | 13,802 |
| | 9,399 | 4,807 | 4,320 | 4,123 | 38,359 | 5,413 | 66,421 |
| | \$19,092 | \$ 4,807 | \$ 4,320 | \$ 4,123 | \$38,359 | \$ 5,413 | \$ 76,114 |

(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 collection management procedures and monitoring of credit risk of amounts receivable are core control procedures of the Company. Appropriate provisions, if required, are recorded for impaired accounts. Historically, the Company has not experienced significant losses related to trade accounts receivable from individual customers. The Company does not face any material concentrations of credit risk. The Company's credit risk on cash 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 amounts receivable that are denominated in a currency other than the respective functional currency of the Company, the Canadian dollar. The currency in which these transactions primarily are denominated is the U.S. dollar. The Company is exposed to the risk of loss depending on the relative movement of this currency against the Canadian dollar. The Company has not entered into forward contracts to mitigate this risk; however, cash generated from U.S. business activities is used to service working capital needs of U.S. operations.

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18. Capital risk management:

The Company defines capital that it manages as the sum of cash, 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 there are sufficient credit facilities to meet its current and future business requirements, taking into account its anticipated cash flows from operations and its cash balance on-hand. In addition, the Company has a capital expenditure facility available of \$17,665,000 as at December 31, 2022 (note 11(iv)). The Company is required to comply with covenant criteria established by its lenders (see note 11). These include tangible net worth and debt coverage ratio measurements. As at December 31, 2021 and 2022, the Company was in compliance with its debt covenants.

19. Related party transactions:

- (a) During the year ended December 31, 2022, the Company expensed \$298,000 (2021 - \$199,000) in directors' fees.
- (b) A director of the Company is the chairman of a vendor from which the Company purchases services in the normal course of business. There were no purchases from this vendor for the year ended December 31, 2022 and 2021.
- (c) The Company's majority shareholder is Bartrac Investments Ltd. ("Bartrac"). One of the Company's directors is also a director of Bartrac. During the years ended December 31, 2022 and 2021, there were no related party transactions between the Company and Bartrac.
- (d) The Company's key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including directors and executive officers of the Company. Key management personnel compensation comprised the following:

| | 2022 | 2021 |
|------------------------------|-----------------|-----------------|
| Short-term employee benefits | \$ 2,364 | \$ 2,328 |
| Post-employment benefits | 99 | 47 |
| | <u>\$ 2,463</u> | <u>\$ 2,375</u> |

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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:

| | 2022 | | 2021 | |
|--------------------------------|------|--------|------|--------|
| Ice and field sales | \$ | 60,819 | \$ | 35,690 |
| Food and beverage | | 8,342 | | 1,930 |
| Sports store | | 783 | | 406 |
| Sponsorship | | 1,201 | | 551 |
| Space rental | | 1,796 | | 1,339 |
| Management and consulting fees | | 268 | | 270 |
| Other | | 519 | | 207 |
| | \$ | 73,728 | \$ | 40,393 |

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

(b) Geographic:

| | 2022 | | | 2021 | | |
|--------------------|-----------|-----------|-----------|-----------|----------|-----------|
| | Canada | USA | Total | Canada | USA | Total |
| Revenue | \$ 61,918 | \$ 11,810 | \$ 73,728 | \$ 32,624 | \$ 7,769 | \$ 40,393 |
| Non-current assets | 66,838 | 32,079 | 98,917 | 70,438 | 30,068 | 100,506 |
| Total assets | 83,517 | 38,196 | 121,713 | 82,126 | 34,486 | 116,612 |

21. Supplemental cash flow information:

(a) Net changes in non-cash working capital:

| | 2022 | | 2021 | |
|--|------|-------|------|-------|
| Accounts receivable | \$ | 114 | \$ | 136 |
| Inventory | | (117) | | 172 |
| Prepaid and other expenses | | (274) | | 106 |
| Accounts payable and accrued liabilities | | 1,141 | | 469 |
| Deferred revenue and customer deposits | | 2,052 | | 5,870 |
| Effect of change in foreign currency | | (272) | | 20 |
| | \$ | 2,644 | \$ | 6,773 |

(b) Non-cash transactions:

| | 2022 | | 2021 | |
|-------------------|------|-----|------|-------|
| Lease obligations | \$ | 886 | \$ | 5,504 |
| | \$ | 886 | \$ | 5,504 |

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(c) Changes in liabilities arising from financing activities:

| | December 31, 2021 | Cash flow changes | Non-cash changes | December 31, 2022 |
|----------------------------|----------------------|----------------------|---------------------|----------------------|
| Debt (note 11) | \$ 43,796 | \$ (4,121) | \$ 137 | \$ 39,812 |
| Lease liabilities (note 7) | 11,221 | (890) | - | 10,331 |
| Dividends payable | - | 400 | - | 400 |
| | \$ 55,017 | \$ (4,611) | \$ 137 | \$ 50,543 |

22. Expenses by function:

The Company's consolidated statement of earnings (loss) and comprehensive income (loss) 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:

| | 2022 | 2021 |
|--|-----------|-----------|
| Ice rink and recreational facilities expense | \$ 63,814 | \$ 42,867 |
| General and administrative expenses | 7,649 | 6,066 |
| Other gains | (4,647) | (1,529) |

The changes in the above table, as compared to the consolidated statement of earnings (loss) and comprehensive income (loss), relate to depreciation of \$8,379,000 (2021 - \$7,801,000) being allocated from other expenses to ice rink and recreational facilities in the amount of \$8,085,000 (2021 - \$7,514,000), and to general and administrative expenses in the amount of \$294,000 (2021 - \$287,000).

23. Government subsidy:

In response to the negative economic impact of COVID-19, the Government of Canada announced the Canada Emergency Wage Subsidy (CEWS) program and Canada Emergency Rent Subsidy (CERS) program in April 2020. CEWS and CERS provide subsidies on eligible wages, rent and property tax expense based on certain criteria.

The Company determined it was eligible for CEWS and CERS during 2020 and 2021 and accordingly applied for these subsidies. During 2021, the Company recorded \$6,537,000 of subsidies in other income. No amounts were recorded in 2022.