

# 2019 Annual Report



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The experience is everything.

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# LETTER TO SHAREHOLDERS

During 2019 we focused on the optimization of our portfolio of facility assets and excess real estate, the continuation of major roof remediation projects, and the strengthening of our balance sheet to position the company for growth.

In March, we completed the purchase of Ice Sports West Dundee, a 3-pad ice rink facility in the western suburb of Chicago, Illinois for US\$10.0 million. This acquisition expanded our footprint in one of our target U.S. markets. It also enabled us to leverage resources we already had in place in that market and create some great synergies, which will have lasting economic benefits for Ice Sports West Dundee and our other facilities in this marketplace.

In May, we closed our 4-pad ice rink in Brossard, Quebec as this facility had reached the end of its economic life. We had been operating in the Quebec market since 1994 and built great relationships with our customers, employees and the community. Our team members were tremendous and remained consummate professionals through the duration, right to closing date; it was certainly sad to part ways with the Brossard team.

In August, we completed the sale of an ice-rink facility in Fort Wayne, Indiana. The monetization of this asset helped to build cash reserves to position the company to seek other investment opportunities. While Ice Sports Fort Wayne achieved lower returns than expected, we are confident this facility is better suited to be owned and operated by a local investor group to serve the community. As we experienced in Brossard, our team members in Fort Wayne were professional right through to the hand-over date.

Over and above the acquisition and disposition of facility assets, we also converted three parcels of surplus land to cash. In addition, our roof remediation plan to preserve the longevity of our assets, which was started in 2018, was a big focus throughout year. We invested \$2.7 million to protect the life of our building envelopes, which will not only significantly extend the life of our facilities but will also help our ongoing efforts to reduce energy costs.

Despite the many unique moving parts in our operating cycle, we finished the year on plan with same- store revenue of \$82.3 million, up 3% from 2018. While same store EBITDA decreased compared to the prior year, much of that decrease was attributed to planned roof remediation projects. Overall, it was a solid year and one that sets us up nicely for years to come.

I'm extremely proud of our team at all levels. Onboarding a new facility during the course of the year puts a significant strain on our people, but doing so when phasing out two others, while at the same time working through a series of complex maintenance projects can be very taxing under even normal business conditions. Everyone handled the challenges and the changes extremely well and we came out of this year stronger and better for it. Our incredible staff is made up of passionate, dedicated, committed and loyal team members. We wouldn't be where we are without them and I sincerely want to thank all the members of the Canlan Team for their hard work and dedication.

To our loyal guests who choose to make Canlan their second home, we are extremely grateful. At the current moment, we are dealing with the impact of the COVID-19 pandemic that has resulted in the closure of our facilities to help curb the spread of the virus. We thank you for your many years of support and for your patience during this period. In addition, we want to express our appreciation to all our suppliers, business partners, advisors, and stakeholders as you are an extension of our team and we could not navigate through this difficult time without you. To all of you, we want to extend our best wishes to you and your families. Stay safe, and we look forward to restarting operations in the coming months to continue working with you and serving all our guests once again.

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
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 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

(1) Owned Property

(2) Leased Property

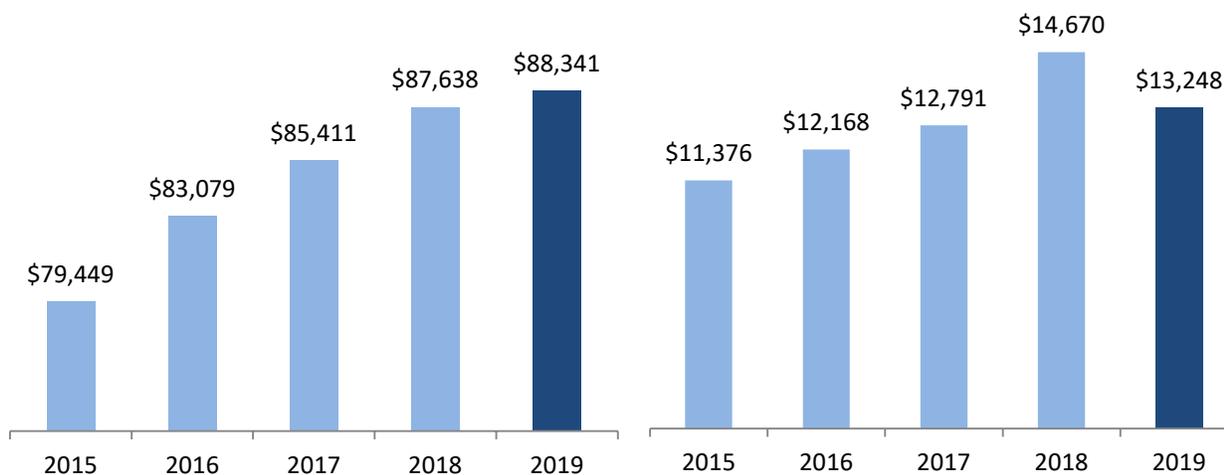
(3) Managed Property

(4) Operating Agreement

❖ Ice rink operations closed and property listed for sale

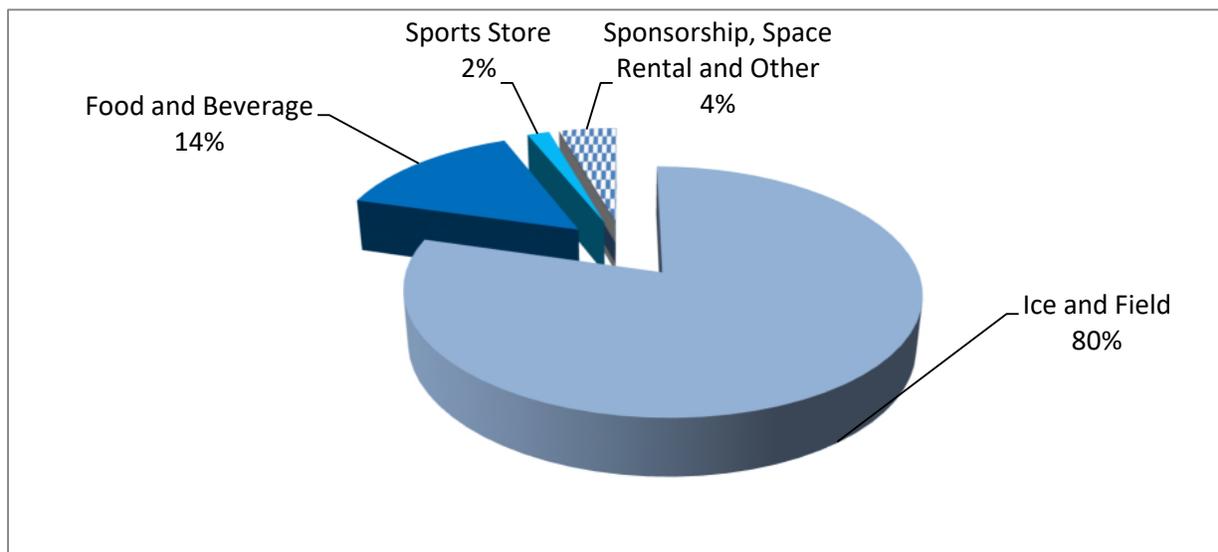
# FINANCIAL HIGHLIGHTS

<i>in thousands, except per share information</i>	2019	2018	2017
Revenue	\$88,341	\$87,638	\$85,411
Earnings before interest, taxes, depreciation and amortization (EBITDA)	\$13,248	\$14,670	\$12,791
Net earnings before taxes	\$3,792	\$5,594	\$4,733
Net earnings	\$2,448	\$4,483	\$3,557
Total assets	\$141,163	\$128,935	\$125,720
Shareholders' equity	\$48,384	\$49,824	\$45,198
Earnings per common share	\$0.18	\$0.34	\$0.27
Shareholders' equity per share	\$3.63	\$3.74	\$3.39
Weighted average common shares	13,337,448	13,337,448	13,337,448



**Revenue (in thousands)**

**EBITDA (in thousands)**



**2019 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, 2019 and 2018. This document should be read in conjunction with our audited consolidated financial statements for the years ended December 31, 2019 and 2018 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](http://www.sedar.com) and our website [www.icesports.com](http://www.icesports.com).

The date of this MD&A is March 24, 2020.

### 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.

## Same Store Analysis and Adoption of IFRS 16

On March 19, 2019, Canlan completed the purchase of an ice rink facility in Chicago, Illinois. The facility, now called Ice Sports West Dundee, commenced operations as a Canlan facility in March 2019 (See “**Review of Assets**” below). On May 5, 2019, the Company’s recreation facility located in Brossard, Quebec was closed and marketed for sale. In addition, on August 20, 2019, the Company sold an ice rink facility in Fort Wayne, Indiana. This MD&A will refer to “same store” results, which excludes the results of these three facilities.

On January 1, 2019, the Company adopted IFRS 16 – **Leases** using the modified retrospective approach (see “**Accounting Standards**” below). Therefore, the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. As a result, facility lease payments were presented as part of “Facility Expenses” in 2018 but not in 2019. In addition, interest costs implicit in these leases was included in finance costs in 2019. This MD&A will refer to changes of “adoption of IFRS 16”, which excludes the effects of the change in presentation.

### Summary of 2019

- Same store revenue of \$82.3 million increased \$2.2 million or 2.7% compared to 2018;
- Same store EBITDA of \$13.3 million decreased by \$1.6 million or 10.5% as incremental costs of \$1.3 million related to the Company’s roof remediation program were incurred;
- On March 19, 2019, the Company completed the purchase of a 3-pad ice rink facility in West Dundee, Illinois for US\$10.0 million, augmenting its footprint in Chicagoland. Post-acquisition capital projects to upgrade equipment, locker rooms and offices were completed and operating results have increased since the acquisition; and
- During the year ended December 31, 2019, the Company recognized a gain on sale of assets of \$1.6 million which included divestiture of a recreation property and three parcels of excess land.

### 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 1,050 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 20 facilities in Canada and the United States containing playing surfaces as outlined below. The Company owns 12 of these facilities containing 1.4 million square feet of space situated on 159 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 39% 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:

	<b>Number of Facilities</b>	<b>Surfaces</b>
<b>2019</b>	<b>20</b>	<b>73<sup>c</sup></b>
2018	20	77
2017	20	77

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

<b>Canada:</b>	<b>Facilities</b>	<b>Ice Surfaces</b>	<b>Indoor Turf Fields</b>	<b>Courts<sup>a</sup></b>	<b>Total Playing surfaces</b>
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 <sup>c</sup>	-	-	-	-
	<b>17</b>	<b>47</b>	<b>4</b>	<b>11</b>	<b>62</b>
<b>USA:</b>					
Illinois	3	6	1 <sup>b</sup>	4	11
	<b>20</b>	<b>53</b>	<b>5</b>	<b>15</b>	<b>73</b>

**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) Our facility in Quebec was closed as of May 2019 in preparation for an intended sale. Assets related to this facility were reclassified to asset held-for-sale.

## About Canlan

Canlan is a publicly traded Canadian Company with shares listed on the Toronto Stock Exchange (TSX) under 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 \$5.34 range during 2019. 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, and internal programming.
- 2. Food and beverage**  
Sales from our licensed restaurants and concession operations within our facilities.
- 3. Sports stores**  
Sales and rental of sports equipment, apparel, and skate sharpening services.
- 4. Management and consulting**  
Fees from managing facilities owned by third parties and consulting engagements.
- 5. Sponsorship**  
Revenue from sponsorship and advertising sales.
- 6. Space rental**  
Rental of space within 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 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 of accretive assets in 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, resulting in consistently great experiences.
- 3) **New Ventures & Innovation** - Proactively seek new opportunities that drive revenue and income growth.
- 4) **Operational Excellence** – Highly efficient and effective facility operations using industry-leading technology, streamlined processes 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.

## **The Marketplace and Our Competition**

Canlan's current marketplace is recreation where we compete for market share with other sports and activities. Our largest program is the Adult Safe Hockey League, which represents 39% or \$27.2 million of our total ice and field revenue. It also represents 31% of total revenue.

Canlan's most significant competition is from municipalities and private league operators. Municipalities cater primarily to minor hockey and other amateur user groups. Private league operators often purchase ice time from local rinks and operate adult leagues. In some markets, private operators 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 more efficiently. In addition, our adult hockey leagues offer a level of competition and service that helps retain customers. Finally, most of our facilities are all full-service sports & entertainment centers incorporating 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 1,050 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 industry. Our employees have industry-specific knowledge and are focused on providing quality customer service within a safe environment. In addition, Canlan's executive team plans and monitors 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 the largest adult recreational hockey league in North America. The ASHL offers superior services and competition in a fun environment. It operates year-round and has approximately 64,000 players in various divisions based on skill and age, registered for the winter and summer seasons.
- **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 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 five provinces in Canada plus one U.S. state 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, we are able to negotiate national supply agreements with preferred pricing.

## Selected Financial Information

The following selected consolidated financial information as at December 31, 2019, 2018, and 2017 and each of the quarters and years then ended has been derived from our 2019 and 2018 annual and interim consolidated financial statements. This data should be read together with those financial statements.

	<i>(unaudited)</i>		<i>(audited)</i>		
	Quarter ended December 31		Year ended		
<i>in thousands, except earnings per share</i>	2019	2018	2019	2018	2017
<b>Statement of Operations Data:</b>					
Total revenue	\$ 23,957	\$ 24,799	\$ 88,341	\$ 87,638	\$ 85,411
Direct expenses <sup>(1)</sup>	(17,741)	(17,689)	(69,247)	(67,201)	(66,701)
General & administration expenses	(1,712)	(1,577)	(5,846)	(5,767)	(5,919)
<b>EBITDA</b>	<b>4,504</b>	<b>5,533</b>	<b>13,248</b>	<b>14,670</b>	<b>12,791</b>
<b>Other expenses:</b>					
Depreciation	(1,980)	(1,776)	(7,946)	(6,929)	(6,951)
Finance costs	(652)	(495)	(2,595)	(2,039)	(2,117)
Foreign exchange gain (loss)	(14)	64	(44)	91	(24)
Gain (loss) on interest rate swap	195	(570)	(485)	(209)	1,027
Gain on sale of assets	13	5	1,614	10	7
Tax expense	(1,276)	(497)	(1,344)	(1,111)	(1,176)
<b>Net earnings</b>	<b>\$ 790</b>	<b>\$ 2,264</b>	<b>\$ 2,448</b>	<b>\$ 4,483</b>	<b>\$ 3,557</b>
<b>Other comprehensive income (loss)</b>	<b>(718)</b>	<b>1,136</b>	<b>(1,505)</b>	<b>1,410</b>	<b>(857)</b>
<b>Total comprehensive income</b>	<b>\$ 72</b>	<b>\$ 3,400</b>	<b>\$ 943</b>	<b>\$ 5,893</b>	<b>\$ 2,700</b>
Basic and fully diluted earnings per share	\$ 0.06	\$ 0.17	\$ 0.18	\$ 0.34	\$ 0.27
<b>Balance Sheet Data:</b>					
Cash and cash equivalents			\$ 16,528	\$ 19,845	\$ 18,629
Current assets (excluding cash, note receivable and assets held-for-sale)			5,765	5,561	4,742
Note receivable			2,492	-	-
Assets held-for-sale			6,406	596	-
Capital assets			105,209	99,582	99,146
Interest rate swap			591	1,077	1,286
Other assets			4,172	2,274	1,917
<b>Total assets</b>			<b>\$ 141,163</b>	<b>\$ 128,935</b>	<b>\$ 125,720</b>
Current liabilities, excluding debt			\$ 23,777	\$ 25,448	\$ 23,314
Mortgage debt			58,271	50,811	53,679
Lease liabilities			7,303	1,714	2,341
Deferred tax liabilities			3,428	1,138	1,188
<b>Total liabilities</b>			<b>92,779</b>	<b>79,111</b>	<b>80,522</b>
<b>Shareholders's equity</b>			<b>48,384</b>	<b>49,824</b>	<b>45,198</b>
			<b>\$ 141,163</b>	<b>\$ 128,935</b>	<b>\$ 125,720</b>
<b>Dividends declared</b>			<b>\$ 1,400</b>	<b>\$ 1,267</b>	<b>\$ 1,067</b>

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

## **Review of Fiscal 2019 Operations**

### **Revenue**

Total revenue of \$88.3 million increased by \$0.7 million or 0.8% compared to 2018; same store revenue increased by \$2.2 million or 2.7%.

Approximately 79% or \$70.2 million (2018 - \$69.0 million) of the Company's total revenue is generated from ice and field activities. In-house programming accounts for approximately 70% of this revenue source and gives us a distinct advantage over third-party rentals since it enables us to manage ice and field inventory based upon demand. Canlan's largest internal program is the Adult Safe Hockey League.

#### ***The Adult Safe Hockey League (ASHL)***

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 2019, same store ASHL revenue of \$26.2 million increased by \$0.5 million or 2.0% compared to 2018 due to pricing and higher volumes.

The ASHL experiences competition from other league and rink operators, but management continues to focus on enhancing player experience, 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, registration fees for youth hockey teams and programs that we operate internally.

Same store youth hockey league revenue of \$3.1 million remained steady compared to 2018.

#### ***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 to power skating and team tactics to figure-skating.

In 2019, these programs generated revenue of \$6.7 million on a same-store basis, which was consistent with prior year.

### ***Tournaments***

Tournament revenue of \$3.9 million increased by \$0.6 million or 17.1% compared to 2018 mainly due to a strong summer season with higher participation numbers and new product offerings. Canlan runs a high-volume in-house tournament business that reduces our reliance on third party tournament operators. 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, tournament and camp operators, as well as some adult leagues. Overall, third party contracts accounted for \$20.8 million in 2019; an increase of \$1.4 million or 7.2% from 2018. Same store revenue increased by \$0.6 million or 3.2% compared to 2018 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 \$3.3 million increased by \$0.1 million or 4.6% from 2018 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 semi-prime field times.

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

<i>in thousands</i>	2019		2018	
	Revenue	% of total	Revenue	% of total
Adult hockey leagues	\$ 27,203	39	\$ 27,427	40
3rd party contract users	20,785	30	19,392	28
Camps, hockey & skating schools	7,572	11	7,989	11
Youth hockey leagues	3,320	5	3,596	5
Public programs & spot rentals	3,216	4	3,396	5
Tournaments	3,917	6	3,346	5
Soccer field rentals and leagues	3,259	4	3,116	5
Other	954	1	746	1
	<b>\$ 70,226</b>	<b>100</b>	<b>\$ 69,008</b>	<b>100</b>

### ***Food & Beverage (F&B)***

Same-store revenue from our 14 restaurant and concession operations of \$12.1 million increased by \$0.2 million or 2.0% from 2018.

Our food and beverage establishments are licensed and we operate all our restaurants in-house to ensure customers receive quality products and service. The main drivers for F&B revenue are adult league players and tournament traffic. Increased tournament traffic and pricing contributed to F&B revenue growth during 2019.

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 14% of total revenue, consistent with 2018.

### ***Sports Stores***

During the year, Canlan operated six 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 five facilities. Our six sports stores generated \$1.4 million in gross sales on a same store basis, which decreased by \$0.2 million or 11.1% compared to 2018 mainly due to reduced equipment sales. Sports store revenue represents 2% of total revenue. Skate sharpening revenue was \$0.5 million, unchanged from 2018.

### ***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 \$0.2 million remained relatively consistent with 2018. 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 \$3.0 million rose by \$0.2 million or 7.0%, mainly due to higher space rental revenue and increased sponsorship activity.

### ***Other Revenue***

Other revenue of \$0.7 million was consistent with 2018. 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.

As reported revenue, by business segment and geographic region are as follows:

<b><i>in thousands</i></b>	<b>2019</b>		<b>2018</b>	
	<b>Sales</b>	<b>% of total</b>	<b>Sales</b>	<b>% of total</b>
Ice and Field Sales	\$ 70,226	79	\$ 69,008	79
Food and Beverage	12,717	14	13,116	15
Sports Store	1,503	2	1,782	2
Sponsorship	1,394	2	1,383	1
Space Rental	1,591	2	1,408	2
Management & Consulting Fees	249	-	258	-
Other	661	1	683	1
	<b>\$ 88,341</b>	<b>100</b>	<b>\$ 87,638</b>	<b>100</b>

<b><i>in thousands</i></b>	<b>2019</b>		<b>2018</b>	
	<b>Sales</b>	<b>% of total</b>	<b>Sales</b>	<b>% of total</b>
<b>Canada:</b>				
British Columbia	\$ 19,054	22	\$ 18,443	21
Alberta	1,992	2	1,901	2
Saskatchewan	7,421	8	7,203	8
Manitoba	4,837	5	4,809	6
Ontario	41,441	47	40,536	46
Quebec	1,509	2	4,447	5
	<b>76,254</b>	<b>86</b>	<b>77,339</b>	<b>88</b>
<b>USA</b>	<b>12,087</b>	<b>14</b>	<b>10,299</b>	<b>12</b>
	<b>\$ 88,341</b>	<b>100</b>	<b>\$ 87,638</b>	<b>100</b>

### Revenue by Quarter

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

<i>in thousands</i>	2019		2018	
	Revenue	% of total	Revenue	% of total
Q1	\$ 25,986	30	\$ 25,624	29
Q2	19,798	22	18,943	22
Q3	18,600	21	18,272	21
Q4	23,957	27	24,799	28
	<u>\$ 88,341</u>	<u>100</u>	<u>\$ 87,638</u>	<u>100</u>

### Direct Operating Costs

Total facility operating costs of \$69.2 million increased by \$2.0 million or 3.0% compared to 2018. Same store operating costs increased by \$2.3 million or 3.7%, mainly due to an increase in repairs and maintenance and selling expenses, partially offset by the effect of the adoption of IFRS 16.

Repairs and maintenance expenses increased by \$1.7 million or 32.0% on a same store basis compared to 2018 mainly due to increased roof remediation projects as planned. Management has planned for larger roof projects to be completed to 2022.

Same store selling and customer service expenses increased by \$1.3 million or 12.4% mainly due to additional costs incurred by the Tournament division to fulfill increased business activity, higher ASHL incentive expenses, and increased marketing-related costs.

In addition, salary and wage expenses remained relatively stable from 2018.

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

<i>in thousands</i>	2019		2018	
	Costs	% of total	Costs	% of total
Q1	\$ 16,981	24	\$ 16,559	25
Q2	17,791	26	17,119	25
Q3	16,734	24	15,834	24
Q4	17,741	26	17,689	26
	<u>\$ 69,247</u>	<u>100</u>	<u>\$ 67,201</u>	<u>100</u>

## ***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 2019 was 21.6% compared to 23.3% a year ago, principally due to increased costs incurred in 2019 to complete a significant portion of the Company's roof remediation plan.

## **U.S. Facility Operations**

On March 19, 2019, the Company completed the purchase of a three-ice-sheet, 106,000 square-foot facility situated on 8 acres of land, in a suburb of Chicago, Illinois called Ice Sports West Dundee for \$13.3 million (US\$10.0 million). In addition to three NHL-sized rinks with spectator seating, amenities include training facilities, well-appointed locker rooms, a proshop, equipment rental, offices, meeting space, and a full-service restaurant. The purchase was financed with a combination of cash reserves and a draw of \$11.0 million on a capital expenditure credit facility. Since the acquisition, Ice Sports West Dundee has generated positive EBITDA while post-acquisition capital projects to upgrade equipment, locker rooms and offices have been completed. (see **Overview of the Company**).

In addition, during the year, the Company completed the sale of an ice-rink facility located in Fort Wayne, Indiana, for \$7.9 million (US\$6.0 million). A combination of cash and a note receivable of \$2.6 million (US\$2.0 million) was received in consideration of the sale proceeds. This loan matures on August 20, 2024 and is amortized over a 20-year period bearing interest at 5.97%. Principal and interest is paid monthly.

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. The addition to our portfolio is consistent with our strategy of expanding our U.S. operations through the acquisition of ice and turf sport facilities with growth potential.

## **General and Administration (G&A) Expenses**

Corporate G&A expenses of \$5.8 million remained steady compared to 2018. Compensation expense related to the Company's stock-based compensation program (SARs Plan) decreased as the SARs Plan ended in 2019. However, this was offset by higher marketing and travel expenses to execute new sales and marketing initiatives and to ramp up Ice Sports West Dundee that was acquired in March 2019. G&A expense represented 6.6% of total revenue in 2019 remained consistent with 2018.

The SARs Plan that was initiated in 2005 with the objective of providing long-term incentive to eligible directors and employees, matured on November 29, 2019. On January 1, 2020, the Company commenced a replacement long-term incentive program that was granted to the same eligible directors and employees. Incentive compensation will be based on the Company's calculated enterprise value at the end of the vesting period in 2022.

G&A expenses throughout the year are as follows:

<i>in thousands</i>	2019		2018	
	Expense	% of total	Expense	% of total
Q1	\$ 1,387	24	\$ 1,483	26
Q2	1,564	27	1,375	24
Q3	1,183	20	1,332	23
Q4	1,712	29	1,577	27
	<b>\$ 5,846</b>	<b>100</b>	<b>\$ 5,767</b>	<b>100</b>

#### EBITDA<sup>1</sup>

After accounting for facility operating costs of \$69.2 million (2018 - \$67.2 million) and G&A expenses of \$5.8 million (2018 - \$5.8 million), EBITDA was \$13.2 million; a decrease of \$1.4 million or 9.7% compared to 2018.

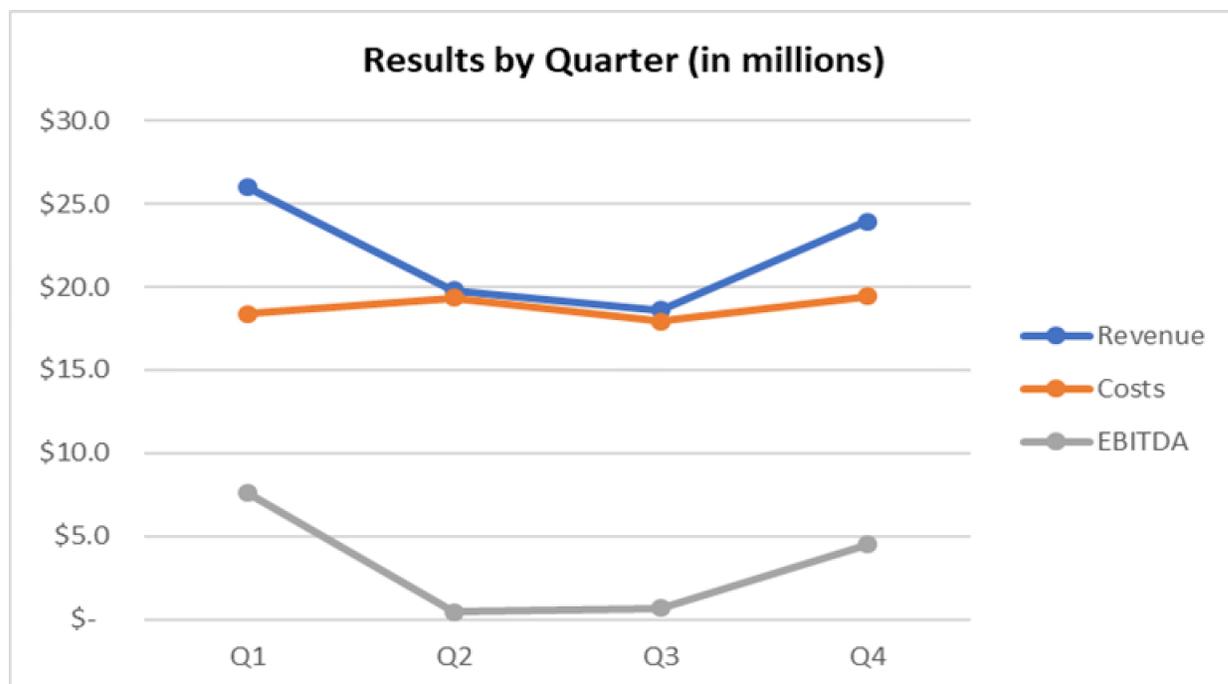
For comparative purposes, with the change in lease accounting policy (IFRS 16) applied to both years and if \$1.3 million of incremental roof project costs were excluded from 2019's results, same store EBITDA of \$14.6 million compared to \$14.9 million a year ago.

The Company's as-reported EBITDA by quarter was as follows:

<i>in thousands</i>	2019		2018	
	EBITDA	% of total	EBITDA	% of total
Q1	\$ 7,618	58	\$ 7,582	52
Q2	443	3	449	3
Q3	683	5	1,106	7
Q4	4,504	34	5,533	38
	<b>\$ 13,248</b>	<b>100</b>	<b>\$ 14,670</b>	<b>100</b>

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

This trend is illustrated as follows:



<sup>1</sup> Non-IFRS measure – see explanation on page 1. See reconciliation to net income on page 19, and to cash flow on page 26.

### **Gross Margin**

Gross margin is calculated as revenue less operating and G&A expenses, expressed as a percentage of revenue. Gross margin for 2019 was 15.0% compared to 16.7% in 2018.

### **Non-operating Expenses**

#### **Depreciation**

Depreciation expense of \$7.9 million increased by \$1.0 million or 14.7% compared to 2018, mainly due to the effect of the adoption of IFRS 16.

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 lease liabilities, 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 \$3.1 million compared to \$2.2 million a year ago. The increase was mainly due to additional mortgage interest on the loan drawn for the acquired

property in Chicago, higher unrealized mark-to-market loss on an interest rate swap contract (\$0.5 million in 2019 compared to \$0.2 million in 2018) and additional interest expense incurred in 2019 related to the adoption of IFRS 16.

A breakdown of our net finance cost is as follows:

<i><b>in thousands</b></i>	<b>2019</b>		2018	
Mortgage interest	\$	<b>2,265</b>	\$	1,975
Interest income		<b>(323)</b>		(250)
Lease liabilities interest		<b>448</b>		112
Mark-to-market loss on interest rate swap		<b>485</b>		209
Amortization of deferred financing costs and other		<b>205</b>		202
	<b>\$</b>	<b>3,080</b>	<b>\$</b>	<b>2,248</b>

At year end, the Company had interest bearing, mortgage secured debt totaling \$58.3 million (2018 – \$50.8 million).

The Company has fixed the interest rate on 53% of its mortgage debt, or \$31.2 million at a weighted average rate of 3.52%. Debt with variable interest rates consists of \$20.8 million at the Prime rate plus 0.50%, and \$6.5 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 2019, total financing fees expensed was \$81,000 compared to \$106,000 in 2018.

### **Net Earnings Before Income Taxes**

Net earnings before income taxes was \$3.8 million in 2019 compared to \$5.6 million in 2018.

### **Taxes**

In 2019, net tax expense of \$1.3 million consisted of \$0.1 million of current tax expense and \$1.2 million of deferred tax expense.

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.

U.S. operations have cumulated losses for tax purposes of approximately \$11.3 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 2019, the Company recognized \$0.3 million (2018 - \$0.2 million) of deferred tax benefits based on the Company's estimate of 2019 U.S. taxable income (excluding the one-time tax effect on the sale of one of the U.S. properties). The remaining losses carried forward have not been recognized as deferred tax assets at December 31, 2019.

## **Net Earnings**

Net earnings after tax for the year ended December 31, 2019 was \$2.4 million or \$0.18 per share, compared to \$4.5 million or \$0.34 per share in 2018.

## **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 loss in 2019 was \$1.5 million (2018 – comprehensive income of \$1.4 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*

	2019	2018	2017
<b>Revenue</b>	<b>\$ 88,341</b>	\$ 87,638	\$ 85,411
<b>Expenses</b>	<b>69,247</b>	67,201	66,701
<b>Earnings from operations</b>	<b>19,094</b>	20,437	18,710
General & administration	<b>5,846</b>	5,767	5,919
<b>EBITDA</b>	<b>13,248</b>	14,670	12,791
Other expenses (income)			
Depreciation	<b>7,946</b>	6,929	6,951
Gain on sale of assets	<b>(1,614)</b>	(10)	(7)
Foreign exchange (gain) loss	<b>44</b>	(91)	24
	<b>6,376</b>	6,828	6,968
Finance costs (income)			
Finance costs	<b>2,918</b>	2,289	2,241
Finance income	<b>(323)</b>	(250)	(124)
Loss (gain) on interest rate swap	<b>485</b>	209	(1,027)
	<b>3,080</b>	2,248	1,090
<b>Net earnings before taxes</b>	<b>3,792</b>	5,594	4,733
Income tax expense (recovery)			
Current	<b>140</b>	1,194	779
Deferred	<b>1,204</b>	(83)	397
	<b>1,344</b>	1,111	1,176
<b>Net earnings</b>	<b>2,448</b>	4,483	3,557
<b>Other comprehensive income (loss):</b>			
<i>Items that may be reclassified subsequently to net earnings:</i>			
Foreign currency translation differences	<b>(1,505)</b>	1,410	(857)
<b>Total comprehensive income</b>	<b>\$ 943</b>	\$ 5,893	\$ 2,700
Operating margin before general & administration	<b>21.6%</b>	23.3%	21.9%
Administration as a percentage of revenue	<b>6.6%</b>	6.6%	6.9%
EBITDA as a percentage of revenue	<b>15.0%</b>	16.7%	15.0%

## 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.

<i>in thousands</i>	2019 (after application of IFRS 16)				Total
	Q1	Q2	Q3	Q4	
Gross revenue	\$ 25,986	\$ 19,798	\$ 18,600	\$ 23,957	\$ 88,341
Operating costs	(16,981)	(17,791)	(16,734)	(17,741)	(69,247)
	9,005	2,007	1,866	6,216	19,094
General & administration	(1,387)	(1,564)	(1,183)	(1,712)	(5,846)
<b>EBITDA</b>	<b>7,618</b>	<b>443</b>	<b>683</b>	<b>4,504</b>	<b>13,248</b>
Depreciation	(1,991)	(2,033)	(1,942)	(1,980)	(7,946)
Finance costs	(583)	(677)	(683)	(652)	(2,595)
Foreign exchange gain (loss)	(21)	(21)	12	(14)	(44)
Gain (loss) on interest rate swap	(487)	(219)	26	195	(485)
Gain (loss) on sale of assets	408	(8)	1,201	13	1,614
<b>Net earnings (loss) before taxes</b>	<b>4,944</b>	<b>(2,515)</b>	<b>(703)</b>	<b>2,066</b>	<b>3,792</b>
Income taxes	(1,181)	657	456	(1,276)	(1,344)
<b>Net earnings (loss)</b>	<b>\$ 3,763</b>	<b>\$ (1,858)</b>	<b>\$ (247)</b>	<b>\$ 790</b>	<b>\$ 2,448</b>
<b>Earnings (loss) per share</b>	<b>\$ 0.28</b>	<b>\$ (0.14)</b>	<b>\$ (0.02)</b>	<b>\$ 0.06</b>	<b>\$ 0.18</b>

<i>in thousands</i>	2018				Total
	Q1	Q2	Q3	Q4	
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)
<b>EBITDA</b>	<b>7,582</b>	<b>449</b>	<b>1,106</b>	<b>5,533</b>	<b>14,670</b>
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
<b>Net earnings (loss) before taxes</b>	<b>5,480</b>	<b>(1,735)</b>	<b>(912)</b>	<b>2,761</b>	<b>5,594</b>
Income taxes	(1,260)	458	188	(497)	(1,111)
<b>Net earnings (loss)</b>	<b>\$ 4,220</b>	<b>\$ (1,277)</b>	<b>\$ (724)</b>	<b>\$ 2,264</b>	<b>\$ 4,483</b>
<b>Earnings (loss) per share</b>	<b>\$ 0.32</b>	<b>\$ (0.10)</b>	<b>\$ (0.05)</b>	<b>\$ 0.17</b>	<b>\$ 0.34</b>

## Review of Fourth Quarter 2019

In Q4, revenue of \$24.0 million decreased by \$0.8 million or 3.4% compared to prior year; same store revenue increased by \$0.3 million or 1.2%. The main drivers of the increase were higher contract revenue, volume growth, pricing of adult hockey leagues and incremental food & beverage revenue.

Operating cost of \$17.7 million remained consistent with prior year; same store expenses increased by \$0.8 million or 5.1% principally due to higher roof remediation expenses as planned and the expense of new business due diligence costs, offset by the effect of the adoption of IFRS 16.

Operating earnings before G&A expenses was \$6.2 million compared to \$7.1 million in 2018.

After recording G&A expenses of \$1.7 million, EBITDA was \$4.5 million compared to \$5.5 million in 2018. G&A increased by \$0.1 million principally due to the provision of retirement allowances and other compensation expense.

After recording finance costs, depreciation, a loss on foreign exchange, and a mark-to-market gain on financial instruments (interest rate swap contract) totaling \$2.4 million, net earnings before taxes was \$2.1 million compared to \$2.8 million in the fourth quarter of 2018.

After tax, net earnings was \$0.8 million or \$0.06 per share, compared to \$2.3 million or \$0.17 per share in 2018. A summary of Q4 results is as follows:

<i>in thousands</i>	<b>2019</b>		<b>2018</b>	
Gross revenue	\$	<b>23,957</b>	\$	24,799
Operating costs		<b>(17,741)</b>		(17,689)
		<b>6,216</b>		7,110
General & administration		<b>(1,712)</b>		(1,577)
<b>EBITDA</b>		<b>4,504</b>		5,533
Depreciation		<b>(1,980)</b>		(1,776)
Finance costs		<b>(652)</b>		(495)
Gain (loss) on interest rate swap		<b>195</b>		(570)
Other		<b>(1)</b>		69
<b>Net earnings before taxes and other</b>		<b>2,066</b>		2,761
Income taxes		<b>(1,276)</b>		(497)
<b>Net earnings</b>		<b>790</b>		2,264
<b>Other comprehensive income (loss)</b>		<b>(718)</b>		1,136
<b>Total comprehensive income</b>	\$	<b>72</b>	\$	3,400
<b>Earnings per share</b>	\$	<b>0.06</b>	\$	0.17

## Review of Assets

The table below summarizes the Company's asset base:

<i>in thousands</i>	2019	2018
Properties	\$ 105,209	\$ 99,582
Cash	16,528	19,845
Accounts receivable	2,933	3,361
Note receivable	2,492	-
Inventory	870	1,099
Prepaid expenses and other assets	2,995	1,681
Assets held-for-sale	6,406	596
Financial asset held for trading	591	1,077
Deferred income taxes	3,139	1,694
	<b>\$ 141,163</b>	<b>\$ 128,935</b>

On March 19, 2019, the Company completed the purchase of a three-ice-sheet, 106,000 square-foot facility situated on 8 acres of land, in a suburb of Chicago, Illinois now called Ice Sports West Dundee for \$13.3 million (US\$10.0 million). In addition to three NHL-sized rinks with spectator seating, amenities include training facilities, well-appointed locker rooms, a proshop, equipment rental, offices, meeting space, and a full-service restaurant. The purchase was financed with a combination of cash reserves and a draw of \$11.0 million on a capital expenditure credit facility. See **Review of Liabilities and Shareholders' Equity** below. Post-acquisition capital of approximately \$2.9 million was invested in the facility for new equipment, renovations, fixtures, and furnishings.

In addition, during the year ended December 31, 2019, the Company invested \$6.9 million (2018 - \$6.6 million) on capital expenditures related to building improvements and renewal of plant equipment at various facilities. Approximately \$0.6 million (2018 - \$0.3 million) of the capital expenditures was funded with lease financing. Expenditures undertaken during the year included refrigeration equipment, plant automation/optimization software, ice resurfacing equipment, and installation of energy efficient lighting at various facilities.

During the year, the Company finalized plans to sell two of its recreation properties located in Quebec and Indiana and reclassified the related assets to assets held-for-sale. On August 20, 2019, the Company completed the sale of the property located in Fort Wayne, Indiana, for \$7.9 million (US\$6.0 million). A combination of cash and a note receivable of \$2.6 million (US\$2.0 million) was received in consideration of the sale proceeds. This note matures on August 20, 2024 and is amortized over a 20-year period bearing interest at 5.97%. Principal and interest is paid monthly. In addition, three excess land parcels (located in Ontario, Alberta, and Texas) were sold for total cash consideration of \$0.8 million. The total gain on sale of assets recognized during the year ended December 31, 2019 was \$1.6 million.

At December 31, 2019, property, plant and equipment totaled \$105.2 million compared to \$99.6 million in 2018. The increase resulted from current-year additions including the purchase of Ice Sports West Dundee, net of depreciation, disposals and reclassification to assets held-for-sale.

The increase in properties was also due to the adoption of IFRS 16 – **Leases** (see “**Accounting Standards**” below). As a result of the change in accounting policy, properties increased by \$5.3 million and deferred tax asset, by \$1.8 million as at January 1, 2019. Refer to notes 3, 7, 8 and 16 of the consolidated financial statements for the period ended December 31, 2019.

Cash on hand at the end of 2019 was \$16.5 million compared to \$19.8 million in 2018. See **Liquidity and Capital Resources** below for sources and uses of cash.

Cash and cash equivalents include \$0.9 million (2018 – \$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:

<i>in thousands</i>	2019	2018
Debt	\$ 58,271	\$ 50,811
Deferred revenue and customer deposits	12,199	12,881
Accounts payable	11,578	12,567
Lease payable - right-of-use assets	7,303	1,714
Deferred income taxes	3,428	1,138
	<b>92,779</b>	79,111
Shareholders' equity	48,384	49,824
	<b>\$ 141,163</b>	\$ 128,935

Interest bearing liabilities, which include debt and leases, totaled \$65.6 million as at December 31, 2019, compared to \$52.5 million as at December 31, 2018. The increase of \$13.1 million was mainly due to amounts borrowed to finance the purchase of Ice Sports West Dundee (see **Review of Assets** above) partially offset by scheduled debt and lease repayments.

The increase in interest bearing liabilities was also due to the adoption of IFRS 16 – **Leases** (see “**Accounting Standards**” below). As a result, leases payable increased by \$6.6 million and deferred tax liability, by \$1.4 million as at January 1, 2019. Refer to notes 3, 7, 8 and 16 of the consolidated financial statements for the year ended December 31, 2019.

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, 2019, the working capital deficit was \$0.1 million compared to \$3.4 million at December 31, 2018. The increase was principally due to the reduction of cash reserves combined with increased debt as discussed above (see **Review of Assets** above).

## **Mortgages**

As at December 31, 2019, 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 BA rate plus 2.10% 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, 2019, the balance outstanding was \$31.2 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, 2019, the balance outstanding was \$8.3 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 payable monthly. During the year ended December 31, 2019, the Company drew \$11.0 million to finance the acquisition of an ice rink property. At December 31, 2019, the balance outstanding was \$12.6 million. Subsequent to year end, \$10.0 million of the amounts outstanding under this credit facility was refinanced with a new revolving term loan, amortized over 15 years, maturing on May 25, 2023, interest accruing at Prime rate plus 0.50% per annum. After this refinancing, the balance available under the \$20.0 million revolving capital expenditure loan was \$17.7 million and the \$10.0 million revolving term loan was fully drawn;
- 4) \$7.1 million loan amortized over 15 years, maturing on September 30, 2023, interest at CDOR plus 2.1% per annum payable monthly. At December 31, 2019, the balance outstanding was \$6.5 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.

We were in full compliance with debt covenants as at December 31, 2019.

## **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 \$12.2 million as at December 31, 2019 (2018 - \$12.9 million). We recognize revenue as ice or field time is used.

## **Lease Liabilities**

Lease liabilities include leasing of equipment such as ice resurfacers with a term of five years, and land and building leases with a term ranges from 10 to 38 years.

## Liquidity and Capital Resources

Canlan's cash balance as at December 31, 2019 was \$16.5 million compared to \$19.8 million from December 31, 2018. The decrease was mainly due to higher roof remediation expenses and capital expenditures incurred in 2019.

With respect to financing activities, during 2019, we utilized \$1.7 million to reduce the principal on lease liabilities and \$1.4 million to pay dividends on common shares. On November 14, 2019, the Company continued its dividend policy and declared a quarterly dividend of \$0.0275 per share on a record date on December 30, 2019 which was paid on January 16, 2020. In addition, the Company drew \$11.0 million of a capital expenditure credit facility to finance the purchase of Ice Sports West Dundee (see **Review of Review of Liabilities and Shareholders' Equity** above). Net cash utilized for scheduled debt repayments in 2019 was \$3.6 million.

With respect to investing activities, \$8.6 million was incurred on capital projects including renovation work at Ice Sports West Dundee. In addition, \$2.3 million was utilized to purchase the new facility with the remainder financed by bank debt. (see **Review of Assets** above). In addition, \$0.6 million was incurred on software development and computer hardware deployed at the corporate offices as a new customer relationship management system is being implemented at all facilities. During 2019, several asset sale transactions were also completed. The Company received net proceeds of \$0.8 million on the sale of three parcels of excess land located in Ontario, Alberta, and Texas, and \$5.3 million (net of a \$2.6 million note receivable) on the sale of a recreation facility located in Indiana (see **Review of Assets** above). As at the date of this Analysis, the Company has a \$17.7 million balance available in a \$20.0 million revolving capital expenditure committed credit line (see **Review of Review of Liabilities and Shareholders' Equity** above).

### Summarized Statement of Cash Flows:

<i>in thousands</i>	2019	2018
<b>Cash inflows and (outflows) by activity</b>		
Operating activities	\$ 8,703	\$ 12,820
Financing activities	4,335	(5,311)
Investing activities	(16,355)	(6,293)
	<u>(3,317)</u>	1,216
<b>Cash position, beginning of year</b>	<b>19,845</b>	18,629
<b>Cash position, end of year</b>	<b>\$ 16,528</b>	<b>\$ 19,845</b>
 <b>Key ratios</b>		
Working capital deficiency	\$ (112)	\$ (3,418)
Debt to equity ratio	<b>1.36:1</b>	1.05:1

### 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 \$8.9 million compared to \$12.6 million in 2018. After accounting for additional bank financing, debt repayments, capital expenditures, and dividends paid, cash decreased by \$3.3 million.

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

<i>in thousands</i>	<b>2019</b>		<b>2018</b>	
EBITDA	\$	<b>13,248</b>	\$	14,670
Changes in working capital items		<b>(1,713)</b>		998
Net finance costs		<b>(2,513)</b>		(2,092)
Income tax expense		<b>(140)</b>		(1,194)
Foreign exchange		<b>(278)</b>		188
Expense of project investigation costs (non-cash charge)		<b>295</b>		-
Cash flow from operations		<b>8,899</b>		12,570
<b>Add (deduct):</b>				
Mortgage principal reduction		<b>(3,621)</b>		(10,260)
New debt		<b>11,000</b>		7,100
Purchase of ice rink property		<b>(13,302)</b>		-
Capital expenditures		<b>(9,176)</b>		(6,303)
Lease payments		<b>(1,677)</b>		(951)
Dividends paid		<b>(1,367)</b>		(1,200)
Proceeds on sale of assets, net of note receivable		<b>6,123</b>		10
Effect of changes in foreign currency rates		<b>(196)</b>		250
Change in cash position for the year	\$	<b>(3,317)</b>	\$	1,216

### 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.

<i>in thousands</i>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>Thereafter</b>	<b>Total</b>
Accounts payable and accrued liabilities	\$ 11,578	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,578
Long-term debt:							
Mortgage principal and interest	\$ 6,092	\$ 6,071	\$ 6,051	\$ 47,466	\$ -	\$ -	\$ 65,680
Lease liabilities, including interest	1,649	1,316	1,057	963	692	5,926	11,603
	7,741	7,387	7,108	48,429	692	5,926	77,283
	\$ 19,319	\$ 7,387	\$ 7,108	\$ 48,429	\$ 692	\$ 5,926	\$ 88,861

## Subsequent Event

As at the date of this MD&A, the Company is managing the repercussions from the impact of the outbreak of the Coronavirus (COVID-19) that has resulted in a temporary closure of the Company's recreation facilities in Canada and the United States as at the end of business day March 13, 2020. The extent of the impact will vary depending on the duration of the closures and the general economic activity in Canada and the United States. The duration of the COVID-19 pandemic and the pace of recovery following the pandemic cannot be accurately predicted at this time. As a result of the pandemic, the Company's management has established cost management measures with the objectives of preserving cash and mitigating the effects of a reduction in business activity. In addition, the Company has begun working with its insurance advisors on accessing available coverage under its business interruption insurance as a result of the temporary facility closures, although there can be no guarantee that funds will be accessible under the Company's policy in this particular circumstance. All of the foregoing could negatively impact the Company's financial performance. See "Risk Factors - COVID-19 and other Pandemic or Epidemic Diseases".

## Share Capital

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

	<u>2019</u>	<u>2018</u>
Shares issued and outstanding	<u>13,337,448</u>	13,337,448
<b>Weighted average number of shares outstanding</b>	<u><b>13,337,448</b></u>	<u>13,337,448</u>

The Company's stock appreciation rights (SARs) plan of 2016 matured on November 29, 2019. All SARs liabilities related to vested rights were paid to rights holders, Canlan's directors and officers, on November 29, 2019 and unvested SARs were cancelled upon termination of this plan. As a result, there were no SARs outstanding as at December 31, 2019.

During the year, 491,775 SARs were exercised at a weighted average exercise price of \$3.53, 74,810 SARs were cancelled due to termination of the plan. Total compensation expense recorded in the statement of earnings and comprehensive income for 2019 was \$0.2 million (2018 - \$0.5 million) and was based on calculations using the Black-Scholes pricing model of SARs outstanding.

On January 1, 2020, a new long-term incentive plan was established to replace the SARs Plan for directors and officers. Incentive compensation under the new plan will be based on the Company's calculated enterprise value at the end of the vesting period in 2022.

## 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 2019 and 2018.

The Company paid \$0.2 million (2018 - \$0.2 million) in directors' fees during 2019.

## Financial Instruments

The Company has the following financial instruments:

				2019	
	Accounting classification	Fair value level	Carrying Amount	Fair value	
Financial assets not measured at fair value:					
Cash and cash equivalents (i)	Amortized cost	2	\$16,528	\$16,528	
Accounts and note receivable (i)	Amortized cost	2	5,425	5,425	
Financial assets measured at fair value:					
Interest rate swap (iii)	Financial assets at FVTPL	2	591	591	
Financial liabilities not measured at fair value:					
Accounts payable and accrued liabilities (i)	Amortized cost	2	11,578	11,578	
Lease liabilities (ii)	Amortized cost	2	7,303	7,303	
Debt	Amortized cost	2	58,271	57,913	
				2018	
	Accounting classification	Fair value level	Carrying Amount	Fair value	
Financial assets not measured at fair value:					
Cash and cash equivalents (i)	Amortized cost	2	\$19,845	\$19,845	
Accounts receivable (i)	Amortized cost	2	3,361	3,361	
Financial assets measured at fair value:					
Interest rate swap (iii)	Financial assets at FVTPL	2	1,077	1,077	
Financial liabilities not measured at fair value:					
Accounts payable and accrued liabilities (i)	Amortized cost	2	12,567	12,567	
Lease liabilities (ii)	Amortized cost	2	1,714	1,714	
Debt	Amortized cost	2	50,811	49,843	

- (i) The carrying values of cash and cash equivalents, accounts and note 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, 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, 2019, a loss of \$0.5 million (loss of \$0.2 million in 2018) was recognized.

The Company does not have held-to-maturity investments at December 31, 2019. The Company had no “other comprehensive income or loss” transactions related to financial instruments during the year ended December 31, 2019 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, 2019.

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, 2019. 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, 2019.

## **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.

### **COVID-19 and other Pandemic or Epidemic Diseases**

Outbreaks or the threat of outbreaks of viruses or other contagions or epidemic or pandemic diseases, including the recent COVID-19 outbreak, may lead to voluntary or mandatory building closures, government restrictions on travel, or gatherings, which may lead to a general slowdown of economic activity and disrupt our workforce and business operations. Such occurrences, including the outbreak of COVID-19, could have a material adverse effect on the demand for recreation services. The pace of recovery following such occurrences cannot be accurately predicted, nor can the impact on the Company's cash flows, results of operations, and the Company's ability to obtain additional financing, or re-financing. As at the close of business day March 13, 2020, the Company has temporarily closed its facilities as a result of the COVID-19 outbreak.

Mitigating Factors and strategies:

- During temporary closure periods, management establishes cost management measures with the objective of preserving cash and mitigating the effects of a reduction in business activity.
- The Company has procured business interruption insurance and management works with its insurers to access available levels of insurance coverage.
- During such occurrences, financial support for businesses and individuals may be made available by various levels of government that the Company will access where appropriate.

### **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 necessary. 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.
- Management ensures cash reserves are adequate to finance working capital throughout the off-peak seasons.

## **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 and reduces energy consumption.
- The Company employs a full-time subject matter expert in energy management.

## **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 \$27.3 million, is subject to variable interest rates. For every 1% change in base market rates, interest expense will change by \$0.3 million per annum.

Mitigating factors and strategies:

- The Company has fixed the interest rate on \$31.2 million or 53% 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 shares 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 2,297,000 Common shares, which represents 17.2% 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 audited 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 occur, and as ice or field times are used. Deferred revenue relates to amounts received in advance for the Company's sports leagues, programs, and rentals. 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.

### **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. 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 2019**

- (a) Effective January 1, 2019, the Company has adopted IFRS 16 *Leases*, which sets out a new model for lease accounting, replacing IAS 17 – *Leases*.

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

Based on management's assessment, as at January 1, 2019, property, plant and equipment increased by approximately \$5.3 million, total liabilities increased by approximately \$6.6 million, net deferred tax assets increased by approximately \$0.3 million and deficit increased by \$1.0 million. If the Company had applied IFRS 16

effective January 1, 2018, property, plant and equipment would have increased by approximately \$6.0 million, total liabilities, by approximately \$7.5 million, net deferred tax assets, by approximately \$0.4 million and deficit would have been increased by \$1.1 million.

(i) Lease policy applicable from January 1, 2019:

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

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

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

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

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

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

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

(ii) Lease policy applicable before January 1, 2019:

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.

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.

(b) IFRS 3 amendments – *Clarifying What is a Business* was issued in October 2018 and effective as of January 1, 2020. This amendment provides guidance to assist entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. The amendments include an election to use a concentration test which is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets.

The Company has early adopted these amendments on January 1, 2019. As a result of this adoption, the purchase of the Ice Sports West Dundee facility on March 19, 2019 has been accounted for as a purchase of assets rather than a business combination See “**Review of Assets**” above.

**Ivan Wu**  
**Chief Financial Officer**



**CANLAN ICE SPORTS CORP.**

YEARS ENDED DECEMBER 31, 2019 AND 2018



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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 position as at December 31, 2019 and December 31, 2018
- 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, 2019 and December 31, 2018, 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 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.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a single, long, horizontal stroke that tapers at both ends, serving as a decorative underline.

Chartered Professional Accountants

Vancouver, Canada  
March 25, 2020

# CANLAN ICE SPORTS CORP.

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

Years ended December 31, 2019 and 2018

	2019	2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 4)	\$ 16,528	\$ 19,845
Accounts receivable	2,933	3,361
Note receivable (note 5)	69	-
Inventory (note 6)	870	1,099
Prepaid and other expenses	1,962	1,101
Assets held-for-sale (note 9)	6,406	596
	<u>28,768</u>	<u>26,002</u>
Non-current assets:		
Property, plant and equipment – facilities (note 7)	105,209	99,582
Interest rate swap	591	1,077
Note receivable (note 5)	2,423	-
Deferred tax assets (note 16(b))	3,139	1,694
Other assets	1,033	580
	<u>112,395</u>	<u>102,933</u>
	<u>\$ 141,163</u>	<u>\$ 128,935</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities (note 10)	\$ 11,578	\$ 12,567
Deferred revenue and customer deposits	12,199	12,881
Current portion of:		
Lease liabilities (note 8)	1,239	777
Debt (note 11)	3,864	3,195
	<u>28,880</u>	<u>29,420</u>
Non-current liabilities:		
Lease liabilities (note 8)	6,064	937
Debt (note 11)	54,407	47,616
Deferred tax liabilities (note 16(b))	3,428	1,138
	<u>63,899</u>	<u>49,691</u>
Total liabilities	92,779	79,111
Shareholders' equity:		
Share capital (note 12)	63,109	63,109
Contributed surplus	543	543
Foreign currency translation reserve	2,270	3,775
Deficit	(17,538)	(17,603)
	<u>48,384</u>	<u>49,824</u>
	<u>\$ 141,163</u>	<u>\$ 128,935</u>

Nature of operations (note 1)  
Commitments and contingencies (note 15)

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, 2019 and 2018

	2019	2018
Revenue:		
Ice rink and recreational facilities (note 20)	\$ 88,341	\$ 87,638
Expenses (note 22):		
Ice rink and recreational facilities:		
Salaries, wages and benefits	32,659	32,769
Selling and customer service	12,692	11,303
Utilities	6,727	6,889
Cost of goods sold	5,569	5,697
Repairs and maintenance	7,589	5,730
Property tax	3,716	3,433
Other	295	-
Facility lease (note 3(g))	-	1,380
	<u>69,247</u>	<u>67,201</u>
Earnings from ice rink and recreational facilities before the undernoted	19,094	20,437
General and administration expenses (notes 14 and 22)	5,846	5,767
Earnings before the undernoted	13,248	14,670
Other expenses (income) (note 22):		
Depreciation	7,946	6,929
Gain on sale of assets	(1,614)	(10)
Foreign exchange loss (gain)	44	(91)
	<u>6,376</u>	<u>6,828</u>
Finance income (costs):		
Finance income	323	250
Finance costs	(2,918)	(2,289)
Gain (loss) on interest rate swap (note 17(a))	(485)	(209)
	<u>(3,080)</u>	<u>(2,248)</u>
Earnings before income taxes	3,792	5,594
Income tax expense (recovery) (note 16):		
Current	140	1,194
Deferred	1,204	(83)
	<u>1,344</u>	<u>1,111</u>
<b>Net earnings</b>	<b>\$ 2,448</b>	<b>\$ 4,483</b>
Other comprehensive income (loss):		
Items that may be reclassified subsequently to net earnings:		
Foreign currency translation differences	(1,505)	1,410
<b>Total comprehensive income</b>	<b>\$ 943</b>	<b>\$ 5,893</b>
Basic and fully diluted earnings per share	\$ 0.18	\$ 0.34
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, 2019 and 2018

	Share capital	Contributed surplus	Foreign currency translation reserve	Deficit	Total
Balance at December 31, 2017	\$ 63,109	\$ 543	\$ 2,365	\$ (20,819)	\$ 45,198
Net earnings	-	-	-	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
Balance at January 1, 2019, as previously reported	63,109	543	3,775	(17,603)	49,824
Impact of change in accounting policy (note 8)	-	-	-	(983)	(983)
Adjusted balance at January 1, 2019	63,109	543	3,775	(18,586)	48,841
Net earnings	-	-	-	2,448	2,448
Other comprehensive loss	-	-	(1,505)	-	(1,505)
Dividends to common shareholders	-	-	-	(1,400)	(1,400)
Balance at December 31, 2019	\$ 63,109	\$ 543	\$ 2,270	\$ (17,538)	\$ 48,384

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, 2019 and 2018

	2019	2018
Cash provided by (used in):		
Operations:		
Net earnings	\$ 2,448	\$ 4,483
Adjustments for:		
Depreciation	7,946	6,929
Gain on sale of assets	(1,614)	(10)
Other	295	-
Net finance costs	3,080	2,248
Deferred income taxes	1,204	(83)
Foreign exchange loss (gain)	(234)	97
Net change in non-cash working capital (note 21)	(1,713)	998
Interest paid (note 11)	(2,836)	(2,342)
Interest received	323	250
	8,899	12,570
Financing:		
Principal repayments of debt	(3,621)	(10,260)
Increase in principal of debt	11,000	7,100
Principal repayments on obligations under lease liabilities	(1,677)	(951)
Payment of dividends on common shares	(1,367)	(1,200)
	4,335	(5,311)
Investments:		
Net proceeds on sale of assets	8,671	10
Net increase in note receivable on sale of assets (note 5)	(2,571)	-
Principal payments received on note receivable	23	-
Purchase of ice rink property (note 7)	(13,302)	-
Expenditures on ice rink and recreational facilities	(8,576)	(5,899)
Expenditures on other assets	(600)	(404)
	(16,355)	(6,293)
Effect of changes in foreign currency rates on cash and cash equivalents	(196)	250
Increase (decrease) in cash and cash equivalents	(3,317)	1,216
Cash and cash equivalents, beginning of year	19,845	18,629
Cash and cash equivalents, end of year	\$ 16,528	\$ 19,845

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, 2019 and 2018

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## 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.

### COVID-19

On March 11, 2020 the COVID-19 outbreak was declared a pandemic by the World Health Organization and as a direct result the Company closed its business operations at the end of business day March 13, 2020. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and our business are not known at this time. The impact could include ability to obtain debt and equity financing, impairments in the value of our facilities, or potential future decreases in revenue or the profitability of our ongoing operations.

## 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 24, 2020.

### (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.

# 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, 2019 and 2018

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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.

(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 Company's performance obligations are satisfied. 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 occur, 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.

# 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, 2019 and 2018

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Critical judgments that have a higher degree of judgment and the most significant effect on the Company's financial reporting, apart from those involving estimates (discussed above), include:

- *Recoverability of property, plant, and equipment* - the recoverability of the Company's recreational properties is based on future discounted cash flows expected to be generated from such assets. These cash flows are based on management's approved budgets and projections. When appropriate, third-party appraisals will also be used to assess the recoverability of recreational properties.
- *Useful lives of property, plant, and equipment* - property, plant, and equipment are depreciated on a straight-line basis over their estimated useful life. Approximately 75% of the Company's total assets are comprised of recreational properties. The 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:

- Canlan Ice Sports (USA) Corp.
- P.C. Development Inc.

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

(ii) Transactions eliminated on consolidation:

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

# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2019 and 2018

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(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.

(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 recognized in the statement of earnings and comprehensive income on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized within gain or loss on sale of assets.

(ii) Subsequent costs:

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

(iii) Depreciation:

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

# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2019 and 2018

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.

# 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, 2019 and 2018

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(g) Leases:

Effective January 1, 2019, the Company has adopted IFRS 16 *Leases*, which sets out a new model for lease accounting, replacing IAS 17 *Leases*.

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

(i) Lease policy applicable from January 1, 2019:

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

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

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

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

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

# 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, 2019 and 2018

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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.

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

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

(ii) Lease policy applicable before January 1, 2019:

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.

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.

# 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, 2019 and 2018

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(h) 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.

# CANLAN ICE SPORTS CORP.

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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.

(i) Fair value measurement:

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

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

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

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

(j) Financial instruments:

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, or through profit or loss), and those to be measured at amortized cost.

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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
- 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, note receivable, accounts payable and accrued liabilities, lease 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.

# CANLAN ICE SPORTS CORP.

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## 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.

## (k) Earnings per share:

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

## (l) Employee benefits:

### (i) Defined contribution plans:

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in net earnings in the period in which services are rendered by employees. 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 \$369,000 (2018 - \$379,000) 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.

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(m) Finance income and finance costs:

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

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

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

(n) Income tax:

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

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

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

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are increased or reduced dependent on the probability that the related tax benefit will be realized.

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(o) 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.

(p) Segment reporting:

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

(q) New standards and interpretations adopted:

Other than IFRS 16, discussed in note 3(g), the Company also adopted IFRS 3 amendments *Clarifying What is a Business*, which was issued in October 2018 and effective as of January 1, 2020. The Company has early-adopted these amendments on January 1, 2019. This amendment provides guidance to assist entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. The amendments include an election to use a concentration test which is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets (see note 7).

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#### 4. Restricted cash

Cash and cash equivalents include \$880,000 (2018 – \$880,000) of restricted cash representing funds held in trust in accordance with the terms of an operating agreement related to a recreation facility operated by the Company on behalf of a third party and a lease agreement with a third party. These funds are maintained as operating and capital expenditure reserves and the balance will change as reserve requirements are adjusted.

#### 5. Note receivable:

On August 20, 2019, the Company completed the sale of a recreation facility in Fort Wayne, Indiana for proceeds of US\$5,950,000 (note 9), which included a combination of cash and a promissory note of US\$1,950,000. The note receivable is amortized over 20 years, matures on August 20, 2024, and bears interest at 5.97% per annum payable monthly, and is categorized as Level 2 within the fair value hierarchy (note 17a). At issuance, the note receivable was measured at its fair value of \$2,589,000 (US\$1,950,000) at 5.97%. At December 31, 2019, the current portion of the note receivable outstanding was \$69,000, and the non-current portion was \$2,423,000.

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

#### 6. Inventory:

	2019	2018
Sports store	\$ 501	\$ 735
Food and beverage	369	364
	\$ 870	\$ 1,099

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.

# CANLAN ICE SPORTS CORP.

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

	Land	Buildings and building improvements	Leasehold improvements	Rink board systems	Refrigeration equipment	Machinery and equipment	Computers, furniture and fixtures	Ice resurfacing equipment	Work in process	Total
<b>Cost</b>										
Balance at December 31, 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
<b>Balance at December 31, 2018</b>	<b>16,898</b>	<b>119,474</b>	<b>2,274</b>	<b>5,424</b>	<b>21,261</b>	<b>16,226</b>	<b>11,357</b>	<b>5,656</b>	<b>430</b>	<b>199,000</b>
Balance at January 1, 2019, as previously reported	16,898	119,474	2,274	5,424	21,261	16,226	11,357	5,656	430	199,000
Impact of change in accounting policy (note 8)	-	5,295	-	-	-	-	-	-	-	5,295
<b>Adjusted balance at January 1, 2019</b>	<b>16,898</b>	<b>124,769</b>	<b>2,274</b>	<b>5,424</b>	<b>21,261</b>	<b>16,226</b>	<b>11,357</b>	<b>5,656</b>	<b>430</b>	<b>204,295</b>
Reclassification to assets held-for-sale	(2,524)	(17,995)	-	(785)	(2,537)	(2,015)	(1,660)	(568)	-	(28,084)
Reclassification	-	86	-	-	39	2	-	-	(127)	-
Additions	2,260	9,967	212	203	3,285	3,880	1,006	1,120	554	22,487
Project costs expensed	-	-	-	-	-	-	-	-	(295)	(295)
Effect of movements in exchange rates	(205)	(1,094)	-	(31)	(175)	(125)	(85)	(35)	(3)	(1,753)
<b>Balance at December 31, 2019</b>	<b>\$ 16,429</b>	<b>\$ 115,733</b>	<b>\$ 2,486</b>	<b>\$ 4,811</b>	<b>\$ 21,873</b>	<b>\$ 17,968</b>	<b>\$ 10,618</b>	<b>\$ 6,173</b>	<b>\$ 559</b>	<b>\$ 196,650</b>

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	Land	Buildings and building improvements	Leasehold improvements	Rink board systems	Refrigeration equipment	Machinery and equipment	Computers, furniture and fixtures	Ice resurfacing equipment	Work in process	Total
<b>Accumulated depreciation and impairment losses</b>										
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)
Balance at January 1, 2019, as previously reported	-	(59,619)	(1,263)	(2,844)	(9,309)	(11,478)	(10,125)	(4,780)	-	(99,418)
Reclassification to assets held-for-sale	-	10,321	-	253	794	1,954	1,600	402	-	15,324
Depreciation for the year	-	(4,658)	(194)	(206)	(744)	(1,070)	(524)	(420)	-	(7,816)
Effect of movements in exchange rates	-	281	-	7	31	68	62	20	-	469
Balance at December 31, 2019	\$ -	\$ (53,675)	\$ (1,457)	\$ (2,790)	\$ (9,228)	\$ (10,526)	\$ (8,987)	\$ (4,778)	\$ -	\$ (91,441)
<b>Carrying amounts</b>										
Balance at December 31, 2018	\$ 16,898	\$ 59,855	\$ 1,011	\$ 2,580	\$ 11,952	\$ 4,748	\$ 1,232	\$ 876	\$ 430	\$ 99,582
Balance at December 31, 2019	16,429	62,058	1,029	2,021	12,645	7,442	1,631	1,395	559	105,209

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

	December 31, 2019
Property, plant and equipment owned	\$ 97,584
Right-of-use-property, plant and equipment leased (note 8)	7,625
	<u>\$ 105,209</u>

On March 19, 2019, the Company completed the purchase of an ice rink facility in Chicago, Illinois for \$13,302,000 (US\$10,000,000). The purchase was financed with a combination of cash reserves and a capital expenditure credit facility (note 11). The Company has early-adopted the amendments to IFRS 3 – *Business Combinations* and applied the concentration test to account for this transaction. Accordingly, this acquisition does not constitute a business combination and has been accounted for as a purchase of assets since substantially all the fair value of the assets acquired is concentrated in a single identifiable group of assets.

During the year ended December 31, 2019, two of the Company's recreation properties with net book value totaling \$12,760,000 were reclassified from property, plant and equipment and presented as assets held-for-sale. One of these recreation properties was sold on August 20, 2019 (note 9).

For the year ended December 31, 2019, no impairment losses were recognized.

## 8. Right-of-use assets:

Effective January 1, 2019, the Company has adopted IFRS 16 *Leases*.

(a) The Company has the following right-of-use assets which are included in property, plant and equipment on the balance sheet (see note 7):

	Equipment	Building and building improvements	Total
Balance at December 31, 2018, as previously reported	\$ 2,857	\$ -	\$ 2,857
Impact of change in accounting policy (note 7)	-	5,295	5,295
Carrying amounts, January 1, 2019	2,857	5,295	8,152
Additions	609	-	609
Depreciation	(389)	(747)	(1,136)
December 31, 2019	<u>\$ 3,077</u>	<u>\$ 4,548</u>	<u>\$ 7,625</u>

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

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

	December 31, 2019
Maturity analysis – contractual undiscounted cash flows:	
Less than one year	\$ 1,649
One to five year	4,028
More than five years	5,926
<b>Total undiscounted lease liabilities</b>	<b>\$ 11,603</b>
Lease liabilities included in the statements of financial:	
Current	\$ 1,239
Non-current	6,064
	<b>\$ 7,303</b>

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

Operating lease commitments at December 31, 2018	\$ 11,099
Discounted using implicit/incremental borrowing rates	3% - 7%
Lease liabilities previously not recognized as at December 31, 2018	\$ 6,657
Previously recognized finance leases	1,714
<b>Lease liabilities as at January 1, 2019</b>	<b>\$ 8,371</b>

During the year ended December 31, 2019, interest expense related to lease liabilities was \$448,000. Total lease expense related to leases of low-value items were \$142,000 during the year ended December 31, 2019.

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## 9. Assets held-for-sale:

	Cost	Accumulated amortization	Carrying amount
December 31, 2018	\$ 596	\$ -	\$ 596
Effect of movements in exchange rate	192	101	91
Reclassified from property, plant and equipment - facilities	28,084	15,324	12,760
Disposals	(14,080)	(7,039)	(7,041)
December 31, 2019	\$ 14,792	\$ 8,386	\$ 6,406

During the year, two recreation properties were reclassified from property, plant and equipment – facilities to assets held-for-sale. On August 20, 2019, the Company completed the sale of one recreation property located in Fort Wayne, Indiana, for proceeds of \$7,908,000 (US\$5,950,000) (note 5). The Company also completed the sale of two land parcels for total cash consideration of \$697,000 during the year. Included in other income in the statement of earnings and comprehensive income was a gain on sale of assets of \$1,614,000, of which, \$1,526,000 (net of transaction costs) related to the gain on sale of assets held-for-sale. As at December 31, 2019, assets held-for-sale consist of land parcels and a recreation property that 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.

No impairment loss was recognized on the initial classifications as held-for-sale.

## 10. Accounts payable and accrued liabilities:

Accounts payable and accrued liabilities consist of the following:

	2019	2018
Trade payables	\$ 3,736	\$ 3,491
Wages payable	2,734	3,372
Other accrued liabilities	4,280	3,913
Dividends payable	367	333
Indirect tax payables	461	570
Stock appreciation rights	-	468
Income tax payable	-	420
	\$ 11,578	\$ 12,567

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

# CANLAN ICE SPORTS CORP.

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## 11. Debt:

	Maturity dates	Interest rates	2019	2018
Fixed rate	2023	3.52%	\$ 31,246	\$ 33,408
Variable rate	2023	Prime + 0.50%	8,286	8,744
	2023	Prime + 0.50%	12,552	2,080
	2023	CDOR + 2.10%	6,469	6,942
			58,553	51,174
Deferred financing costs			(282)	(363)
			58,271	50,811
Current portion			3,864	3,195
Non-current portion			\$ 54,407	\$ 47,616

As at December 31, 2019, debt consists of five credit facilities, four of which have been drawn, as follows:

- \$38,500,000 loan amortized over 15 years, maturing on May 25, 2023, interest at BA rate plus 2.10% per annum payable monthly. The Company entered into an interest rate swap contract (note 17a), maturing on May 25, 2023, to fix the interest rate at 3.52% per annum payable monthly. At December 31, 2019, the balance outstanding was \$31,246,000;
- \$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, 2019, the balance outstanding was \$8,286,000;
- \$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 payable monthly. During the year ended December 31, 2019, the Company drew \$11,000,000 to finance the acquisition of an ice rink property (note 7). At December 31, 2019, the balance outstanding was \$12,552,000. Subsequent to year end, \$10,000,000 of the amounts outstanding under this credit facility was refinanced with a new revolving term loan, amortized over 15 years, maturing on May 25, 2023, interest accruing at Prime rate plus 0.50% per annum. After this refinancing, the balance available under the \$20,000,000 revolving capital expenditure loan was \$17,664,000 and the \$10,000,000 revolving term loan was fully drawn;
- \$7,100,000 loan amortized over 15 years, maturing on September 30, 2023, interest at CDOR plus 2.1% per annum payable monthly. At December 31, 2019, the balance outstanding was \$6,469,000; 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 \$81,000 (2018 - \$106,000) was recorded in finance costs.

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## 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, 2019 and 2018	13,337,448	\$ 63,109

On November 14, 2019, the Company declared a quarterly dividend of \$0.0275 per share which was paid on January 16, 2020. In addition, the Company paid quarterly dividends of \$0.025 per share on each of April 16, 2019 and July 16, 2019 respectively, and \$0.0275 per share on October 15, 2019.

## 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 Company has terminated this plan on November 29, 2019 and paid out all vested SARs. Unvested SARs were cancelled upon termination of this plan.

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

	Number of SARs	Weighted average exercise price
Number of SARs outstanding, December 31, 2017	661,418	\$ 3.44
Granted	87,750	4.44
Exercised	(147,416)	3.37
Forfeited	(35,167)	3.34
Number of SARs outstanding, December 31, 2018	566,585	3.62
Exercised	(491,775)	3.53
Cancelled	(74,810)	4.24
Balance, December 31, 2019	-	\$ -
Exercisable, December 31, 2018	215,585	\$ 3.42
Exercisable, December 31, 2019	-	\$ -

# 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, 2019 and 2018

During the year ended December 31, 2019, the Company recognized compensation expense of \$223,000 (2018 – \$529,000) in respect of the SARs Plan. This amount was calculated in accordance with the fair value method of accounting. As the SARs Plan matured and all liabilities related to this plan were paid on November 29, 2019, the SARs liability at December 31, 2019 was nil. At December 31, 2018, the SARs liability included within accounts payable and accrued liabilities was \$468,000 and was estimated using the Black-Scholes pricing model with the following assumptions:

	2018
Risk free interest rate	1.93%
Expected dividend yield	1.92%
Expected lives of rights	11 to 32 months
Expected volatility	16% - 23%

Risk free interest rate was 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 were based on historical experience of rights being exercised. For 2018, expected volatility is based on the historical share price volatility over the past 11 months to 32 months.

On January 1, 2020, a replacement long-term incentive plan was commenced and granted to the same eligible directors and employees of the company.

## 14. General and administration expenses:

General and administration expenses consist of the following:

	2019	2018
Salaries, wages and benefits	\$ 4,163	\$ 3,983
Professional and regulatory fees	455	483
Office	519	419
Travel	302	202
Stock appreciation rights	223	529
Other	184	151
	\$ 5,846	\$ 5,767

## 15. Commitments and contingencies:

- (a) Due to the nature of the sports and recreation business, various lawsuits involving the Company are pending. The financial impact of these lawsuits is not determinable, but management believes, based on legal counsels' opinions, that the outcome will not materially affect the Company's financial position.
- (b) At December 31, 2019, the Company has letters of guarantee outstanding with various vendors in the amount of \$1,105,000 (2018 - \$1,105,000).

# 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, 2019 and 2018

## 16. Income taxes:

- (a) The major factors which caused variations from the Company's expected combined Canadian and U.S. income tax rate of 23% for 2019 (2018 - 26%) were as follows:

	2019	2018
Statutory rate applied to earnings before income taxes	\$ 857	\$ 1,434
Change in deferred tax assets not recognized	76	(117)
Substantively enacted tax rate change	44	(63)
Foreign currency translation differences	183	(55)
Permanent differences and other	184	(88)
<b>Income tax expense</b>	<b>\$ 1,344</b>	<b>\$ 1,111</b>

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

	December 31, 2019	As reported December 31, 2018	IFRS 16 Adoption (note 8)	January 1, 2019
<b>Deferred income tax assets:</b>				
Unused tax losses	\$ 831	\$ 438	\$ -	\$ 438
Deferred revenue	-	70	-	70
Properties	1,970	656	1,775	2,431
Financing fees	86	225	-	225
Other	252	305	-	305
	<b>\$ 3,139</b>	<b>\$ 1,694</b>	<b>\$ 1,775</b>	<b>\$ 3,469</b>
<b>Deferred income tax liability:</b>				
Properties	\$ (3,270)	\$ (760)	\$ (1,416)	\$ (2,176)
Other	(158)	(378)	-	(378)
	<b>(3,428)</b>	<b>(1,138)</b>	<b>(1,416)</b>	<b>(2,554)</b>
<b>Net deferred income tax assets (liabilities)</b>	<b>\$ (289)</b>	<b>\$ 556</b>	<b>\$ 359</b>	<b>\$ 915</b>

The following deferred tax assets have not been recognized as at December 31, 2019 and December 31, 2018:

	2019	2018
U.S. tax losses set to expire between 2021 and 2037	\$ 1,285	\$ 2,017
Tax losses that do not expire	811	-
Deductible temporary differences	61	61
	<b>\$ 2,157</b>	<b>\$ 2,078</b>

# 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, 2019 and 2018

## 17. Financial instruments:

### (a) Fair value:

The Company has the following financial instruments:

				2019	
	Accounting classification	Fair value level	Carrying amount	Fair value	
Financial assets not measured at fair value:					
Cash and cash equivalents (i)	Amortized cost	2	\$ 16,528	\$ 16,528	
Accounts and note receivable (i)	Amortized cost	2	5,425	5,425	
Financial assets measured at fair value:					
Interest rate swap (iii)	Financial assets at FVTPL	2	591	591	
Financial liabilities not measured at fair value:					
Accounts payable and accrued liabilities (i)	Amortized cost	2	11,578	11,578	
Lease liabilities (ii)	Amortized cost	2	7,303	7,303	
Debt	Amortized cost	2	58,271	57,913	
				2018	
	Accounting classification	Fair value level	Carrying amount	Fair value	
Financial assets not measured at fair value:					
Cash and cash equivalents (i)	Amortized cost	2	\$ 19,845	\$ 19,845	
Accounts receivable (i)	Amortized cost	2	3,361	3,361	
Financial assets measured at fair value:					
Interest rate swap (iii)	Financial assets at FVTPL	2	1,077	1,077	
Financial liabilities not measured at fair value:					
Accounts payable and accrued liabilities (i)	Amortized cost	2	12,567	12,567	
Lease liabilities (ii)	Amortized cost	2	1,714	1,714	
Debt	Amortized cost	2	50,811	49,843	

- (i) The carrying values of cash and cash equivalents, accounts and note 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, 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, 2019, a loss of \$485,000 (loss of \$209,000 in 2018) was recognized.

# 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, 2019 and 2018

(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 \$273,000 (2018 - \$178,000) per annum.

(ii) Liquidity risk:

Liquidity risk is the risk from the Company's potential inability to meet its financial obligations. The Company constantly monitors its cash flows and operations to ensure current and long-term obligations can be met. The Company's capital resources are comprised of cash and cash equivalents and cash flow from operating activities. Cash and cash equivalents is comprised of cash balances and deposits with financial institutions and other short-term, highly liquid investments with original maturities of three months or less when acquired, that are readily convertible to cash. Due to the seasonality of the business, the Company finances a portion of its assets through customer deposits received in advance of the services being provided. At December 31, 2019, the Company has a working capital deficiency of \$112,000 (2018 - \$3,418,000). Throughout the year, the Company has access to a 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	2020	2021	2022	2023	2024	Thereafter	Total
Accounts payable and accrued liabilities	\$ 11,578	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,578
Long-term debt:							
Mortgage principal and interest	6,092	6,071	6,051	47,466	-	-	65,680
Lease liabilities, including interest	1,649	1,316	1,057	963	692	5,926	11,603
	7,741	7,387	7,108	48,429	692	5,926	77,283
	\$ 19,319	\$ 7,387	\$ 7,108	\$ 48,429	\$ 692	\$ 5,926	\$ 88,861

# 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, 2019 and 2018

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(iii) Credit risk:

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts and note receivable. Effective collection management procedures and monitoring of credit risk of amounts receivable are core control procedures of the Company. In addition, a subordinated charge on real property has been obtained as security related to a note receivable from a third party. Appropriate provisions, if required, are recorded for impaired accounts. Historically, the Company has not experienced significant losses related to trade accounts receivable from individual customers. The Company does not face any material concentrations of credit risk. The Company's credit risk on cash and cash equivalents is limited as it maintains its holdings with large highly rated financial institutions.

(iv) Currency risk:

The Company is exposed to currency risk on sales, purchases, and amounts receivable that are denominated in a currency other than the respective functional currency of the Company, the Canadian dollar. The currency in which these transactions primarily are denominated is the U.S. dollar. The Company is exposed to the risk of loss depending on the relative movement of this currency against the Canadian dollar. The Company has not entered into forward contracts to mitigate this risk; however, cash generated from U.S. business activities is used to service working capital needs of U.S. operations. As at December 31, 2019, the Company has a note receivable denominated in U.S. dollars (note 5).

## 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.

# 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, 2019 and 2018

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 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, 2019 and 2018, the Company was in compliance with these covenants. The Company is not subject to any statutory capital requirements, and has not made any changes with respect to its overall capital management strategy during the years ended December 31, 2019 and 2018.

## 19. Related party transactions:

- (a) During the year ended December 31, 2019, the Company expensed \$229,000 (2018 - \$207,000) 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, 2019 and 2018, 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:

	2019	2018
Short-term employee benefits	\$ 1,968	\$ 1,833
Stock appreciation rights	223	529
Post employment benefits	64	63
	\$ 2,255	\$ 2,425

- (d) Directors and executive officers participate in the Company's stock appreciation rights program (note 13). During the year ended December 31, 2019, the Company paid \$654,000 (2018 - \$168,000) related to stock appreciation rights as a result of rights exercised and upon termination of the SARs Plan.

# 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, 2019 and 2018

## 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:

	2019		2018	
Ice and field sales	\$	70,226	\$	69,008
Food and beverage		12,717		13,116
Sports store		1,503		1,782
Sponsorship		1,394		1,383
Space rental		1,591		1,408
Management and consulting fees		249		258
Other		661		683
	\$	88,341	\$	87,638

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

### (b) Geographic

	2019			2018		
	Canada	USA	Total	Canada	USA	Total
Revenue	\$ 76,254	\$ 12,087	\$ 88,341	\$ 77,339	\$ 10,299	\$ 87,638
Non-current assets	83,903	28,492	112,395	82,246	20,687	102,933
Total assets	101,907	39,256	141,163	104,262	24,673	128,935

## 21. Supplemental cash flow information:

	2019		2018	
(a) Net changes in non-cash working capital:				
Accounts receivable	\$	428	\$	(310)
Inventory		229		(5)
Prepaid and other expenses		(861)		(504)
Accounts payable and accrued liabilities		(1,023)		2,395
Deferred revenue and customer deposits		(682)		(328)
Effect of change in foreign currency		196		(250)
	\$	(1,713)	\$	998
(b) Non-cash transactions:				
Lease obligations	\$	609	\$	324

# 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, 2019 and 2018

(c) Changes in liabilities arising from financing activities:

	As reported December, 31 2018	IFRS 16 adoption (note 8)	January 1, 2019	Cash flow changes	Non-cash changes		December 2019
					Foreign exchange movement	other	
Debt	\$ 50,811	\$ -	\$ 50,811	\$ 7,379	\$ -	\$ 81	\$ 58,271
Lease liabilities (note 8)	1,714	6,657	8,371	(1,068)	-	-	7,303
Dividends payable	333	-	333	34	-	-	367
	\$ 52,858	\$ 6,657	\$ 59,515	\$ 6,345	\$ -	\$ 81	\$ 65,941

## 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:

	2019	2018
Ice rink and recreational facilities expense	\$ 77,063	\$ 74,018
General and administrative expenses	5,976	5,879
Other expenses (income)	(1,570)	(101)

The changes in the above table, as compared to the consolidated statement of earnings and comprehensive income, relate to depreciation of \$7,946,000 (2018 - \$6,929,000) being allocated from other expenses to ice rink and recreational facilities in the amount of \$7,816,000 (2018 - \$6,817,000), and to general and administrative expenses in the amount of \$130,000 (2018 - \$112,000).

# FIVE YEAR REVIEW

## Statements of Financial Position

<i>in thousands, except statistics</i>	2019	2018	2017	2016	2015
<b>Assets:</b>					
Property, plant and equipment - facilities	\$ 105,209	\$ 99,582	\$ 98,596	\$ 101,934	\$ 103,631
Other	32,815	27,659	25,463	21,857	15,376
Deferred tax assets	3,139	1,694	1,661	1,768	1,597
	<b>\$ 141,163</b>	<b>\$ 128,935</b>	<b>\$ 125,720</b>	<b>\$ 125,559</b>	<b>\$ 120,604</b>
<b>Liabilities:</b>					
Debt	\$ 58,271	\$ 50,811	\$ 53,679	\$ 55,593	\$ 53,152
Other	31,080	27,162	25,655	25,503	23,067
Deferred tax liabilities	3,428	1,138	1,188	898	657
	<b>\$ 92,779</b>	<b>\$ 79,111</b>	<b>\$ 80,522</b>	<b>\$ 81,994</b>	<b>\$ 76,876</b>
<b>Shareholders' Equity:</b>					
Share capital	\$ 63,109	\$ 63,109	\$ 63,109	\$ 63,109	\$ 63,109
Contributed surplus	543	543	543	543	543
Foreign currency translation reserve	2,270	3,775	2,365	3,222	3,612
Deficit	(17,538)	(17,603)	(20,819)	(23,309)	(23,536)
	<b>\$ 48,384</b>	<b>\$ 49,824</b>	<b>\$ 45,198</b>	<b>\$ 43,565</b>	<b>\$ 43,728</b>
<b>Statistics:</b>					
Debt to equity ratio	1.36:1	1.05:1	1.24:1	1.35:1	1.28:1
Share price range	\$4.32-5.34	\$3.83-5.94	\$3.20-3.98	\$3.15-4.00	\$3.06-3.75

## Statements of Earnings and Comprehensive Income

<i>in thousands, except share and per share amounts</i>	2019	2018	2017	2016	2015
Facility revenue	\$ 88,341	\$ 87,638	\$ 85,411	\$ 83,079	\$ 79,449
Facility operating expenses	69,247	67,201	66,701	65,717	63,769
General and administrative	5,846	5,767	5,919	5,194	4,304
	<b>75,093</b>	<b>72,968</b>	<b>72,620</b>	<b>70,911</b>	<b>68,073</b>
<b>Earnings before interest, taxes, depreciation and amortization</b>	<b>13,248</b>	<b>14,670</b>	<b>12,791</b>	<b>12,168</b>	<b>11,376</b>
<b>Other expenses (gains):</b>					
Depreciation	7,946	6,929	6,951	7,017	6,954
Net finance cost	3,080	2,248	1,090	2,311	2,888
Fee on settlement of debt	-	-	-	2,318	-
Impairment loss	-	-	-	-	4,070
Loss (gain) on sale of assets	(1,614)	(10)	(7)	(21)	16
Other	44	(91)	24	(474)	1,053
Income tax expense (recovery)	1,344	1,111	1,176	(277)	(3)
	<b>10,800</b>	<b>10,187</b>	<b>9,234</b>	<b>10,874</b>	<b>14,978</b>
<b>Net earnings (loss)</b>	<b>\$ 2,448</b>	<b>\$ 4,483</b>	<b>\$ 3,557</b>	<b>\$ 1,294</b>	<b>\$ (3,602)</b>
Other comprehensive income (loss) related to foreign currency translation differences	(1,505)	1,410	(857)	(390)	3,612
<b>Total comprehensive income</b>	<b>\$ 943</b>	<b>\$ 5,893</b>	<b>\$ 2,700</b>	<b>\$ 904</b>	<b>\$ 10</b>
<b>Earnings (loss) per common share</b>	<b>\$0.18</b>	<b>\$0.34</b>	<b>\$0.27</b>	<b>\$0.10</b>	<b>(\$0.27)</b>
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

## Directors

**W. Grant Ballantyne**  
Chairman  
Ontario

**Frank D. Barker**  
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

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## 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  
Sales, Marketing & Innovation

**Greg Porcellato**  
Vice-President  
Western Operations

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Toronto Stock Exchange, Symbol ICE

**Corporate Website**  
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# Canlan Ice Sports Corp.

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