



# 2016 ANNUAL REPORT

A high performance  
industry leader  
**passionately committed**  
to providing exceptional  
customer experiences  
every time



#### TABLE OF CONTENTS

- 04** Letter to Shareholders
- 06** Facility Locations
- 10** Financial Highlights
- 11** Management's Discussion & Analysis
- 37** Independent Auditors' Report
- 39** Consolidated Financial Statements
- 59** Five Year Review
- 60** Corporate Information





## LETTER TO SHAREHOLDERS

2016 marks another record year with gross revenue exceeding \$83 million and EBITDA breaking through \$12 million. Much of this success can be attributed to our steadfast approach to customer service and to the continued investments being made in our people and in our facilities. In an environment of sharply rising costs and downward pressures on market prices, many recreation facilities in our industry must operate with minimal capital investment. However, we have remained diligent, forging ahead with our learning & development platforms, energy management, facility refurbishment, and innovation programs, resulting in a high performance culture, continued reductions in energy consumption, safe facilities for our customers to enjoy and new products/services that meet their growing needs.

We refinanced \$42.9 million of long term debt while taking advantage of the low interest rates in the market, which was a significant move to improve the balance sheet. This decision resulted in improved annual cash flows of \$1.6 million and helped to replenish our cash reserves.

We concluded a long term agreement with the City of Calgary in Alberta, Canada to operate its state of the art 2-pad facility known as the Great Plains Recreation Facility. The addition of this facility helps to close the gap in our Canadian portfolio and now gives us exposure in all provinces between Quebec and British Columbia. The Great Plains facility had a very smooth launch in the fall thanks to the hard work that went into the planning and execution between Canlan and the City of Calgary.

Several years ago, we made a conscious decision to develop a strategy that would allow us to leverage our core competencies in facility ownership, operations and programming to diversify into multisport facilities in order to take advantage of the growth being experienced with indoor soccer, basketball and volleyball. While we had been in the indoor soccer business for more than a decade in Burnaby and in Winnipeg, in 2012 we launched our first non-ice multisport facility. Since that time we have been learning, innovating and refining our approach to our Sportsplex model. We saw tremendous year over year improvements this year in our Mississauga and Lake Barrington facilities as our teams at facility level continue to collaborate with our corporate support teams to expand our breadth of products and services.



The Adult Safe Hockey League (ASHL) continued to grow throughout the year as we expanded our divisional offerings in many of our facilities to include more Coed, Female, 50+ and instructional divisions. These newer divisions allow us to attract new players to the ASHL and retain those that have been in our leagues for several years and progressing on from our 40+ divisions.

We have faced a number of new challenges over the years, from changes in government legislation, to demographic shifts and the high price of electricity, to name a few. We have always worked diligently to remain ahead of these challenges and I am extremely proud of our team for the commitment and passion that they continue to demonstrate despite being faced with new challenges year after year. We have a solid foundation made up of our customers, our people, our facilities and our products/services. We pride ourselves in continuously looking for ways to improve the way we do business for the benefit of everyone involved, including our shareholders.

On behalf of the Executive Team and our Board of Directors, I wish to thank our customers for making Canlan Ice Sports their home away from home, and I want to thank our business partners and shareholders for believing in us.

Sincerely,

**Joey St-Aubin**  
**President and Chief Executive Officer**


















# GEOGRAPHIC OVERVIEW OF FACILITY LOCATIONS








# PORTFOLIO AT A GLANCE

## CANADA

PROVINCE	METROPOLITAN AREA	FACILITY NAME	FACILITY FEATURES
British Columbia	Greater Vancouver Area	Burnaby 8 Rinks 	7 ice rinks & 1 indoor soccer field
		Ice Sports North Shore 	3 ice rinks
		Ice Sports Langley Twin Rinks 	2 ice rinks
	Interior British Columbia	South Cariboo Recreation Centre 	1 ice rink
		Armstrong/Spallumcheen	1 ice rink &
		Parks & Recreation 	1 outdoor pool
Alberta	Calgary	Great Plains Recreation Facility 	2 ice rinks
Saskatchewan	Saskatoon	Ice Sports Gemini 	4 ice rinks
		Ice Sports Agriplace 	2 ice rinks
Manitoba	Winnipeg	Ice Sports Winnipeg 	3 ice rinks & 1 indoor soccer field
Ontario	Greater Toronto Area	Ice Sports Etobicoke 	4 ice rinks
		Ice Sports Oakville 	4 ice rinks
		Ice Sports Scarborough 	4 ice rinks & 1 sport court
		Ice Sports Victoria Park 	2 ice rinks
		Ice Sports York 	6 ice rinks
		Ice Sports Oshawa 	2 ice rinks & 6 beach volleyball courts
Quebec	Montreal	Canlan Sportsplex Mississauga 	2 soccer fields & 4 sport courts
		Les 4 Glaces 	4 ice rinks

## USA

STATE	METROPOLITAN AREA	FACILITY NAME	FACILITY FEATURES
Illinois	Chicago	Ice Sports Romeoville 	3 ice rinks
		Canlan Sportsplex Lake Barrington 	1 soccer field (FIFA size)
			2 baseball diamonds 2 multi-sport gymnasiums & 1 fitness gym
Indiana	Fort Wayne	SportONE/Parkview Icehouse 	3 ice rinks

 Owned Property

 Leased Property

 Managed Property

 Operating Agreement



High energy  
action-oriented  
culture, focused on  
exceptional service





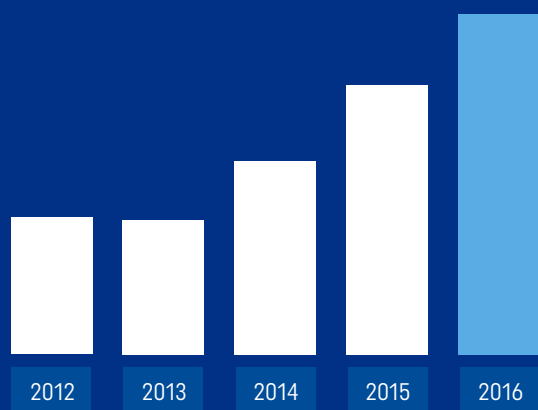


# FINANCIAL HIGHLIGHTS



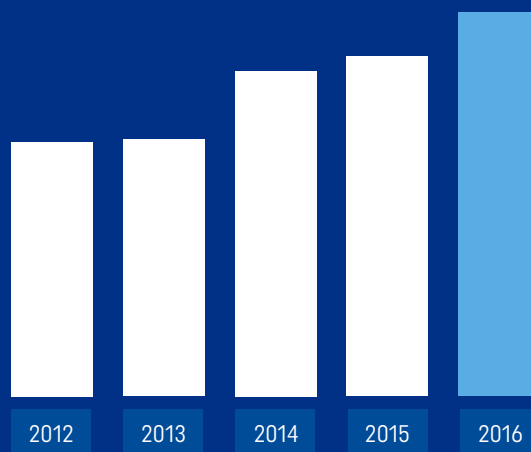
IN THOUSANDS, EXCEPT PER SHARE INFORMATION	2016	2015	2014
Revenue	\$83,079	\$79,449	\$75,732
Earnings before interest, taxes, depreciation and amortization (EBITDA)	\$12,168	\$11,376	\$11,084
Net earnings (loss) before taxes	\$1,017	\$(3,605)	\$1,801
Net earnings (loss)	\$1,294	\$(3,602)	\$896
Total assets	\$125,559	\$120,604	\$118,022
Shareholders' equity	\$43,565	\$43,728	\$44,785
Earnings (loss) per common share	\$0.10	\$(0.27)	\$0.07
Shareholders' equity per share	\$3.27	\$3.28	\$3.36
Weighted average common shares	13,337,448	13,337,448	13,337,448

\$72,823   \$72,791   \$75,732   \$79,449   \$83,079



REVENUE (IN THOUSANDS)

\$9,757   \$9,788   \$11,084   \$11,376   \$12,168



EBITDA (IN THOUSANDS)



# 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, 2016 and 2015. This document should be read in conjunction with our audited consolidated financial statements for the years ended December 31, 2016 and 2015 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 21, 2017.

## FORWARD LOOKING STATEMENTS

Certain statements in this MD&A may constitute "forward looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this MD&A, such statements may use such words as "may", "will", "expect", "believe", "plan" and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this MD&A.

These forward looking statements involve a number of risks and uncertainties. Some of the factors that could cause actual results to differ materially from those expressed in or underlying such forward looking statements are the effects of, as well as changes in: international, national and local business and economic conditions; political or economic instability in the Company's markets; competition; legislation and governmental regulation; and accounting policies and practices. The foregoing list of factors is not exhaustive. Except as required by law, the Company disclaims any intention or obligation to update or revise any forward-looking statements.



## SUMMARY OF 2016

- Revenue of \$83.1 million increased \$3.6 million or 4.6% compared to 2015; same store revenue increased by \$3.1 million or 3.8%;
- EBITDA of \$12.2 million rose \$0.8 million or 7.0% compared to 2015; same store EBITDA increased by \$0.9 million or 8.3%;
- The Company refinanced \$42.9 million of debt that reduces borrowing rates, improves annual cash flow by \$1.6 million and replenished cash reserves;
- Equipment renewal projects focused on energy conservation were completed in accordance with the Company's capital plan. In conjunction with capital expenditures deployed in 2015, the Company began realizing significant reductions of electricity consumption in several facilities during 2016; and
- Earnings from U.S. operations increased by 66% due to strong organic growth, successful tournament events, and traction gained from Lake Barrington Sportsplex that was purchased at the end of January 2015.

## SAME STORE ANALYSIS

On July 7, 2016, Canlan entered into an operating agreement with the City of Calgary to operate a two-pad ice rink facility for a term of 25 years. The facility, called the Great Plains Recreation Facility, commenced operations in September 2016. (See "**Review of Fiscal 2016 Operations – Management Contracts**") This MD&A will refer to "same store" results, which excludes the effect of this new facility.

## OVERVIEW OF THE COMPANY

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

As at the date of this MD&A the Company owns, leases or manages a network of 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 157 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 currently 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 42% of our ice and field revenue is generated by the ASHL.

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

	NUMBER OF FACILITIES	SURFACES
2016	20	77
2015	21	83
2014	20	81
2013	18	68
2012	20	70

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

CANADA					
	FACILITIES	ICE SURFACES	INDOOR TURF FIELDS	COURTS <sup>A</sup>	TOTAL PLAYING SURFACES
British Columbia	5	14	1	–	15
Alberta	1	2	–	–	2
Saskatchewan	2	6	–	–	6
Manitoba	1	3	1	–	4
Ontario	7	22	2	11	35
Quebec	1	4	–	–	4
	17	51	4	11	66
USA					
Illinois	2	3	1 <sup>B</sup>	4	8
Indiana	1	3	–	–	3
	3	6	1	4	11
	20	57	5	15	77

Note

<sup>A</sup> Includes 3 indoor volleyball courts, 6 outdoor beach volleyball courts, 4 basketball courts and 2 sport courts

<sup>B</sup> This is a FIFA regulation field

## ABOUT CANLAN

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

There are approximately 13.3 million shares outstanding and have traded in the \$3.20 to \$3.75 range since December 31, 2016. The Company has not issued any shares since November 2004.



The Company derives revenue from seven primary sources:

### 1. Ice and field sales

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

### 2. Food and beverage

Sales from our licensed restaurants and concession operations inside our facilities.

### 3. Sports stores

Sales and rental of sports equipment and apparel, and skate sharpening services.

### 4. Tournament operations

Registrations in youth and adult tournaments organized by our Tournament Division.

### 5. Management and consulting

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

### 6. Sponsorship

Revenue from sponsorship and advertising sales.

### 7. Space rental

Rental of space inside our facilities.



## VISION, CORE BUSINESS AND STRATEGY

Canlan will strive to be:

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

The Company's goal is to leverage its position in the North American recreation industry by continuing to focus on both organic growth and expansion through acquisition and long term lease. While our largest single market segment is adult recreational hockey leagues, we are focused on increasing utilization in other important segments including skating and hockey schools, soccer programs, court sports such as volleyball and ball hockey, specialty sports leagues and camps, and hockey tournaments. By providing quality products and services in clean, safe facilities, we still have capacity to grow our existing revenue base by providing value added services to our customers. At the same time, we actively seek opportunities to expand our business through acquisition, partnership solutions with third parties, or leasing facilities. Expansion objectives are to achieve a high return on investment and penetrate strategic markets. We have developed six critical success factors supported by specific project initiatives that help the organization reach our goals:

### **1. Sales and Marketing**

Cutting edge marketing that maximizes brand awareness, revenue and customer loyalty.

### **2. Customer Experience**

Exceptional service delivered by well-trained and motivated staff, which results in consistently great experiences.

### **3. New Ventures & Innovation**

Pro-actively seek out new opportunities that drive revenue and income growth.

### **4. Operational Excellence**

Highly efficient and effective facility operations using industry-leading technology, streamlined process and consistent best practices

### **5. People & Leadership**

Strong leadership and highly dedicated people accountable for delivering outstanding customer experiences and business results.

### **6. Culture**

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

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

## THE MARKETPLACE AND OUR COMPETITION

Canlan's current marketplace is recreation, and we understand that we compete for market share with other sports and activities, some of which have lower participation costs. Our largest customer segment is adult hockey players. This segment of our business represents 42% of our total ice and field revenue from rentals and programming, or \$26.4 million. It also represents 32% of total revenue.

Canlan's largest competition is from municipalities and private league operators. Local governments cater primarily to their constituents who are usually made up of minor hockey and other amateur user groups. There are many private league operators in Canada that purchase ice time from local rinks

and run adult leagues, and in some markets, there have been private operators that have constructed new ice rink facilities and operate competing leagues that capture market share. However, Canlan has various competitive advantages, one of which is that we control the ice inventory in our facilities, enabling us to schedule ice times efficiently and provide quality ice times where deemed most appropriate. In addition, our adult hockey leagues offer a level of fair competition and service that helps retain customers. Finally, our facilities are generally full-service sports & entertainment centers where we incorporate retail and food & beverage services into the customers' experience.

## COMPETITIVE STRENGTHS

The Company believes that it has the following competitive strengths:

### Our Team

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

### Adult Safe Hockey League (ASHL)

The Company operates one of the largest adult recreational hockey leagues in North America. The ASHL offers superior services and fair competition in a fun environment. It operates year-round and has approximately 64,000 players registered for the winter and summer seasons in various divisions based on skill and age.

### Diversified Recreation

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

### Geographic Coverage

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

### Buying Power

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



## SELECTED FINANCIAL INFORMATION

The following selected consolidated financial information as at December 31, 2016, 2015, and 2014 and each of the quarters and years then ended has been derived from our 2016 and 2015 annual and interim consolidated financial statements. This data should be read together with those financial statements.

	(UNAUDITED) QUARTER ENDED DECEMBER 31		(AUDITED) YEAR ENDED		
IN THOUSANDS, EXCEPT EARNINGS PER SHARE	2016	2015	2016	2015	2014
<b>Statement of Operations Data</b>					
Total revenue	\$23,845	\$22,889	\$83,079	\$79,449	\$75,732
Direct expenses <sup>(1)</sup>	(17,212)	(15,987)	(65,717)	(63,769)	(60,089)
General & administration expenses	(1,336)	(1,018)	(5,194)	(4,304)	(4,559)
<b>EBITDA</b>	<b>5,297</b>	<b>5,884</b>	<b>12,168</b>	<b>11,376</b>	<b>11,084</b>
<b>Other Expenses</b>					
Depreciation	(1,800)	(1,775)	(7,017)	(6,954)	(6,132)
Finance costs	(534)	(701)	(4,888)	(2,888)	(2,532)
Foreign exchange gain (loss)	8	(67)	474	(1,053)	(666)
Impairment loss	-	(4,070)	-	(4,070)	-
Gain on financial assets held for trading	1,056	-	259	-	-
Gain (loss) on sale of assets	-	3	21	(16)	47
Tax recovery (expense)	(1,790)	(131)	277	3	(905)
<b>Net earnings (loss)</b>	<b>\$2,237</b>	<b>\$(857)</b>	<b>\$1,294</b>	<b>\$(3,602)</b>	<b>\$896</b>
<b>Other comprehensive income (loss)</b>	<b>281</b>	<b>106</b>	<b>(390)</b>	<b>3,612</b>	<b>-</b>
<b>Total comprehensive income (loss)</b>	<b>\$2,518</b>	<b>\$(751)</b>	<b>\$904</b>	<b>\$10</b>	<b>\$896</b>
Basic and fully diluted earnings (loss) per share	<b>\$0.17</b>	<b>\$(0.06)</b>	<b>\$0.10</b>	<b>\$(0.27)</b>	<b>\$0.07</b>
<b>Balance Sheet Data</b>					
Cash and cash equivalents			\$16,335	\$10,065	\$13,534
Current assets (excluding cash)			4,651	4,358	4,550
Capital assets			102,500	104,205	98,252
Other assets			2,073	1,976	1,686
<b>Total assets</b>			<b>\$125,559</b>	<b>\$120,604</b>	<b>\$118,022</b>
Current liabilities, excluding debt			\$22,090	\$20,457	\$18,684
Mortgage debt			55,593	53,152	51,771
Equipment leases			3,413	2,610	1,811
Deferred tax liabilities			898	657	971
<b>Total liabilities</b>			<b>81,994</b>	<b>76,876</b>	<b>73,237</b>
<b>Shareholders' equity</b>			<b>43,565</b>	<b>43,728</b>	<b>44,785</b>
			<b>\$125,559</b>	<b>\$120,604</b>	<b>\$118,022</b>
<b>Dividends declared and paid</b>			<b>\$1,067</b>	<b>\$1,067</b>	<b>\$1,067</b>

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



## REVIEW OF FISCAL 2016 OPERATIONS

### Revenue

Total revenue of \$83.1 million increased by \$3.6 million or 4.6% compared to 2015. Same store revenue increased by \$3.1 million or 3.8%.

Approximately 76% or \$62.8 million (2015 - \$60.0 million) of the Company's total revenue is generated from ice and field activities. In-house programming accounts for approximately 71% of this revenue source and gives us a distinct advantage over third-party rentals because it enables us to manage ice and field inventory based on demand, which results in increased margins. Canlan's largest internal program is the Adult Safe Hockey League.

### The Adult Safe Hockey League

The ASHL operates in two seasons:

- 1) the fall/winter season from September to April and;
- 2) the spring/summer season from May to August.

In 2016, the ASHL generated revenue of \$26.4 million compared to \$25.4 million in 2015, which represents an increase of \$0.9 million or 3.7%. Same store ASHL revenue increased by \$0.7 million or 2.8%. The increase was mainly due to pricing, and modest volume gains in certain markets.

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

### The Youth Hockey League and 3 on 3

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

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

Youth hockey league revenue of \$4.1 million increased by \$0.1 million or 1.3% compared to 2015 mainly due to the growth of youth hockey leagues in the U.S.

### Canlan Camps, Hockey and Skating Academies

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

Hockey and Skating Academies for adult and youth operate throughout the year and weekly classes are held to teach everything from learn-to-skate and figure skating, to power skating and team tactics. The growth opportunities of these programs are concentrated in the summer season when ice inventory is available and the youth population is generally not in school. Consistent with prior year, we had approximately 34,500 participants in these programs and generated \$7.6 million in gross revenue; an increase of \$0.2 million or 2.0% from \$7.4 million in 2015.

### 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. The ice, field and court time are used by private groups, minor hockey associations, third party tournaments and camp operators as well as some adult leagues. Overall, third party contracts accounted for \$18.1 million in 2016; an increase of \$1.1 million or 6.3% from \$17.0 million in 2015. Same store revenue increased by \$0.7 million or 4.3%. The new facility in Calgary, Alberta, works closely with the local minor hockey organizations to provide ice time for their leagues which contributed to our third-party contract revenue.

### Soccer

Canlan operates five indoor soccer fields: one in Burnaby, B.C., one in Winnipeg, Manitoba, two in Sportsplex Mississauga, Ontario, and one FIFA-sized field in Lake Barrington, Illinois. Total soccer revenue of \$2.6 million in 2016 increased by \$0.6 million or 28.8% from 2015. The increase was mainly due to the growth in the youth soccer league and soccer contract revenue in the Lake Barrington facility.

Similar to the ASHL on ice, a significant portion of prime-time utilization of these synthetic turf fields is comprised of indoor soccer leagues we have developed at all of these facilities. In addition, we have secured field rental contracts with large youth and adult soccer associations that utilize prime and off-prime field times. During 2016, Sportsplex Mississauga continued to attract new contract users and teams in its adult soccer league while Lake Barrington achieved significant growth in its youth soccer league and contract bookings.

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

IN THOUSANDS	2016		2015	
	REVENUE	% OF TOTAL	REVENUE	% OF TOTAL
Adult hockey leagues	\$26,370	42	\$25,434	42
3rd party contract users	18,079	29	17,010	28
Camps, hockey & skating schools	7,558	12	7,407	12
Youth hockey leagues	4,083	6	4,029	7
Public programs & spot rentals	3,139	5	3,271	6
Soccer field rentals and leagues	2,644	4	2,053	3
In house tournaments	363	1	273	1
Other	595	1	530	1
	\$62,831	100	\$60,007	100

The adult and youth indoor soccer leagues, which play year-round, had approximately 9,500 players (2015 – 9,000) registered across all locations.

### Food and Beverage (F&B)

Revenue from our 17 restaurant and concession operations was \$12.1 million in 2016, increased by \$0.4 million or 3.4% from 2015.

We operate all our restaurants in-house to ensure our customers receive quality products and service. The product mix between food sales and liquor sales, which was 56% and 44% respectively, remained relatively consistent with 2015. The main drivers for F&B revenue are adult league players and tournament traffic that play in our venues. Accordingly, regions that experienced increases in league and tournament traffic had F&B revenue growth that was offset by the regions that experienced declines.

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

Food and beverage sales accounted for 15% of total revenue which is consistent with 2015.

### Sports Stores

During the year, Canlan operated eight sports stores that sell equipment, apparel, and skate sharpening services in our buildings. The Company rents to third party store operators under long term leases in another five facilities. Our sports stores generated \$1.9 million in gross sales in 2016, compared to \$2.0 million in 2015. Sports store revenue represents 2% of total revenue. Skate sharpening revenue was \$0.5 million, unchanged from 2015. As with F&B, retail sales is largely dependent on ice utilization traffic.

### 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 \$0.5 million was generated in 2016, compared to \$0.4 million a year ago. At the close of the 2016 year, two management contracts ended and as at the date of this discussion, the Company is involved in two management contracts in British Columbia.

On July 7, 2016, Canlan entered into an operating agreement with a municipality to operate a two-pad ice rink facility in Calgary, Alberta for a term of 25 years. Ownership of the facility will not transfer to Canlan; however, an income sharing arrangement with the municipality forms part of the agreement. Certain furniture, fixtures and equipment will be purchased by the Company such as ice resurfacers, kitchen equipment, computers, and furniture. The facility opened in September 2016 and management is focused on quickly ramping up operations.

### Tournament Operations

Canlan's Tournament Division maintains a high volume of in-house tournament business in the seasonally slow summer months, thereby reducing our reliance on third party tournament operators. Revenue generated from this division of \$2.7 million, increased by \$0.2 million or 9.7% compared to the prior year mainly due to higher registrations and sponsorship revenue in 2016. While the majority of the CCT events are held in Canlan facilities, which increases our ice utilization, the division also holds a number of destination tournaments in third party arenas.

### Sponsorship and Space Rental

In many facilities, we rent space to complimentary types of businesses and we also sell advertising space to third party sponsors as ancillary sources of revenue. Sponsorship and space rental revenue of \$2.4 million rose by \$0.1 million or 6.3%.

The increase was contributed by increased rental rates and additional rental space developed in one of our facilities.

## Other Revenue

Other revenue of \$0.7 million in 2016 remained steady with 2015. Other revenue includes commissions received on vending machines plus fees Canlan earns from the registration and operation of affiliate adult recreation hockey leagues across Canada. These affiliate leagues are not part of the ASHL but are members of Canlan's Adult Safe Hockey Network.

Revenue by business segment and geographic region are as follows:

IN THOUSANDS	2016		2015	
	SALES	% OF TOTAL	SALES	% OF TOTAL
Ice and Field Sales	\$62,831	76	\$60,007	76
Food and Beverage	12,080	15	11,684	15
Sports Store	1,940	2	2,012	3
Tournament Operations	2,690	3	2,452	3
Sponsorship	1,242	1	1,243	1
Space Rental	1,150	1	1,007	1
Management & Consulting Fees	466	1	402	-
Other	680	1	642	1
	\$83,079	100	\$79,449	100

IN THOUSANDS	2016		2015	
	SALES	% OF TOTAL	SALES	% OF TOTAL
<b>Canada</b>				
British Columbia	\$18,022	22	\$17,420	22
Alberta	572	1	-	-
Saskatchewan	7,148	9	7,024	9
Manitoba	4,445	5	4,382	5
Ontario	37,907	45	37,299	47
Quebec	4,690	6	4,796	6
	72,784	88	70,921	89
<b>USA</b>	10,295	12	8,528	11
	\$83,079	100	\$79,449	100

## Revenue by Quarter

The Company recorded the following revenue by quarter in 2016. The revenue stream is somewhat seasonal with 58% of the Company's revenue being generated in the fall and winter months (first and fourth quarters) and 42% in the spring and summer season (second and third quarters).

IN THOUSANDS	2016		2015	
	REVENUE	% OF TOTAL	REVENUE	% OF TOTAL
Q1	\$24,231	29	\$22,575	28
Q2	18,182	22	17,476	22
Q3	16,821	20	16,509	21
Q4	23,845	29	22,889	29
	\$83,079	100	\$79,449	100



## Direct Operating Costs

Total facility operating costs of \$65.7 million in 2016 increased by \$1.9 million or 3.1% compared to 2015. Same store operating costs increased by \$1.2 million or 1.9% compared to prior year, mainly due to an increase in labour costs, utilities, and repairs and maintenance expenses.

Labour costs increased by \$1.2 million or 3.8% mainly due to annual wage increments in the normal course of business. Labour is our largest expense and represents 48% of our direct operating costs which was consistent with 2015. We continuously monitor labour rates to stay competitive in all markets. Four of our facilities are subject to collective agreements with three different unions.

Utility expense increased by \$0.4 million or 5.2% from 2015 mainly due to an increase in regulatory surcharges on hydro

electricity imposed by Ontario's power authority.

While electricity consumption has been relatively stable, surcharges, called "Global Adjustment", imposed by Ontario utility regulators have increased costs by approximately \$0.3 million or 22.9% for the year. We have made concerted efforts to reduce power consumption that are beginning to gain traction. In fact, excluding the effects of the global adjustment, same store utility costs slightly decreased compared to 2015.

Repairs and maintenance expense increased by \$0.4 million or 10.4% from 2015 mainly due to higher costs incurred to maintain plant equipment and building envelopes.

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

IN THOUSANDS	2016		2015	
	COSTS	% OF TOTAL	COSTS	% OF TOTAL
Q1	\$16,331	25	\$15,901	25
Q2	16,233	25	16,351	26
Q3	15,941	24	15,530	24
Q4	17,212	26	15,987	25
	\$65,717	100	\$63,769	100

## Operating Margin before General and Administration expenses

Operating margin is calculated as revenue less operating expenses expressed as a percentage of revenue. Operating margin for 2016 increased to 20.9% compared to 19.7% a year ago.



## U.S. Facility Operations

In the United States, the Company owns and operates an ice rink facility in Fort Wayne, Indiana, a non-ice multi-sport complex in Lake Barrington, Illinois, and an ice-rink facility in Romeoville, Illinois.

Total revenue from U.S. operations of US\$7.8 million increased by US\$1.1 million or 15.9%.

The three-pad ice sports facility in Romeoville, a suburb of Chicago, was purchased in June 2011. The performance of this facility has met management's expectations and the facility continues to grow sales from ASHL, youth leagues, and third-party contracts.

The three-pad ice sports facility in Fort Wayne, Indiana, was a leased property that commenced operations in 2010. In 2014, the Company exercised its option to purchase this facility as the longer-term benefits of ownership were favourable compared to a long-term lease. In 2015, an impairment charge was recognized to reduce the accounting book value of the asset as operations have taken longer than anticipated to stabilize the business since its purchase. In 2016, the Company achieved strong revenue and EBITDA growth through increased contract rentals, tournaments, and instructional program registrations. Management will try to build off this momentum in the coming fiscal periods.

Sportsplex Lake Barrington was purchased in January 2015, and it contains one 85,000 square-foot indoor turf field lined for multiple sports such as soccer, football, lacrosse and baseball. It also houses two full gymnasiums capable of accommodating four basketball courts or eight volleyball courts.

During its first full year of operations, the facility significantly increased sales from contract rentals, attracted more soccer teams into its leagues across all age groups and developed a stable camp business for youth during the spring and summer seasons. The ramp-up of field and court sales, along with careful cost management, resulted in significant EBITDA improvement at this sportsplex.

## General and Administration Expenses

Corporate G&A expenses of \$5.2 million increased by \$0.9 million or 20.7% compared to 2015 mainly due to higher salary expense and consulting costs incurred. Higher salary expense resulted from the placement of key corporate positions that were vacant in the prior year and performance-based compensation not required in 2015. Consulting fees related to specific strategic projects were incurred during the year. G&A expense represented 6.3% of total revenue in 2016 compared to 5.4% of total revenue in 2015.

G&A expenses throughout the year are as follows:

IN THOUSANDS	2016		2015	
	EXPENSE	% OF TOTAL	EXPENSE	% OF TOTAL
Q1	\$1,256	24	\$1,255	29
Q2	1,493	29	1,113	26
Q3	1,109	21	918	21
Q4	1,336	26	1,018	24
	\$5,194	100	\$4,304	100

## EBITDA<sup>1</sup>

After accounting for ice rink operating costs of \$65.7 million (2015 - \$63.8 million) and G&A expenses of \$5.2 million (2015 - \$4.3 million), EBITDA was \$12.2 million; an increase of \$0.8 million or 7.0% compared to 2015. Same store EBITDA increased by \$0.9 million or 8.3%.

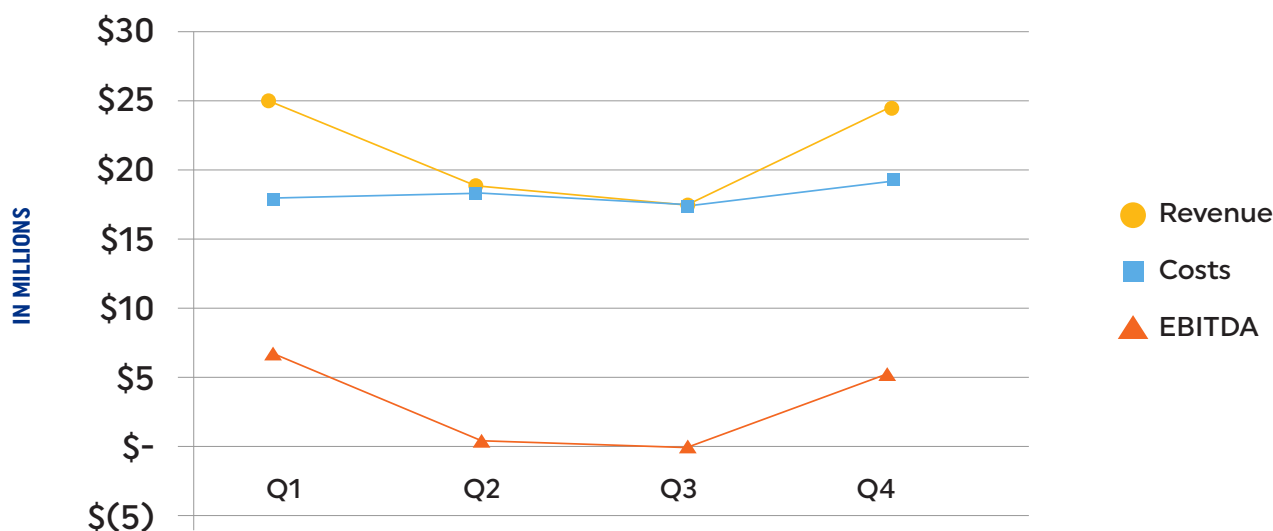
The Company's EBITDA by quarter was as follows:

IN THOUSANDS	2016		2015	
	EBITDA	% OF TOTAL	EBITDA	% OF TOTAL
Q1	\$6,644	55	\$5,419	48
Q2	456	4	12	-
Q3	(229)	(2)	61	-
Q4	5,297	43	5,884	52
	\$12,168	100	\$11,376	100

<sup>1</sup> Non-IFRS measure – see explanation on page 11. See reconciliation to net income on page 24, and to cash flow on page 29.

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

This trend is illustrated as follows:



### Gross Margin

Gross margin is calculated as revenue less operating and G&A expenses, expressed as a percentage of revenue. Gross margin for 2016 was 14.6% compared to 14.3% in 2015. Same store gross margin was 14.9%.

### Non-operating Expenses

#### Depreciation

Depreciation expense of \$7.0 million remained consistent with 2015.

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

#### Finance Income and Costs

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

Net finance costs were \$4.6 million compared to \$2.9 million in 2015. The increase was due to a fee of \$2.3 million that was paid upon the early settlement of term debt as part of a refinancing transaction completed during June 2016. See **Review of Liabilities and Shareholders' Equity – Mortgages** below for further details.

A breakdown of our net finance cost is as follows:

IN THOUSANDS	2016	2015
Mortgage interest	\$2,240	\$2,703
Debt retirement fee	2,318	-
Interest income	(66)	(62)
Equipment lease interest	131	109
Gain on financial assets held for trading	(259)	-
Amortization of deferred financing costs and other	265	138
	<b>\$4,629</b>	<b>\$2,888</b>

At year end, the Company had interest bearing, mortgage secured debt totaling \$55.6 million (2015 – \$53.2 million).

The Company has fixed the interest rate on 67% of its mortgage debt, or \$37.5 million at a weighted average rate of 3.52%. Debt with variable interest rates consists of \$10.2 million at the Prime rate plus 0.50%, and \$8.2 million at LIBOR plus 2.50%.

Costs related to new debt financing are amortized using the effective interest rate method in accordance with IFRS and classified as interest expense. In 2016, total financing fees expensed was \$176,000 compared to \$72,000 in 2015.



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

Net earnings before income taxes was \$1.0 million in 2016 compared to net loss of \$3.6 million in 2015. Included in net loss before taxes in 2015 was an impairment loss of \$4.1 million on a recreation property located in Fort Wayne, Indiana. See **U.S. Facility Operations** for further details. No impairment charges were required in 2016.

#### ***Taxes***

In 2016, a net tax recovery of \$0.3 million was recorded that mainly related to an income tax refund of \$0.8 million resulting from a revaluation of the tax basis of specific Canadian capital assets, offset by Canadian income tax expense related to taxable income projected for fiscal 2016.

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

Prior to 2016, U.S. operations incurred losses that created non-capital loss carry-forwards of approximately \$10.2 million that are 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 2016, the Company recognized \$0.4 million of deferred tax benefits based on the Company's estimation of 2016 taxable income and probable taxable income in future years. The remaining losses carried forward have not been recognized as deferred tax assets at December 31, 2016.

#### ***Net Earnings***

Net earnings after tax for the year ended December 31, 2016 was \$1.3 million or an earnings per share of \$0.10, compared to net loss of \$3.6 million in 2015 or loss per share of \$0.27.

#### ***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 2016 was \$0.4 million (2015 – other comprehensive income of \$3.6 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 re-translation are recognized in net earnings.



## Summary of Operations

FOR THE YEARS ENDED DECEMBER 31 IN THOUSANDS	2016	2015	2014
<b>Revenue</b>	<b>\$83,079</b>	<b>\$79,449</b>	<b>\$75,732</b>
<b>Expenses</b>	<b>65,717</b>	<b>63,769</b>	<b>60,089</b>
<b>Earnings from operations</b>	<b>17,362</b>	<b>15,680</b>	<b>15,643</b>
General & administration	5,194	4,304	4,559
<b>EBITDA</b>	<b>12,168</b>	<b>11,376</b>	<b>11,084</b>
Other expenses (income)			
Depreciation	7,017	6,954	6,132
Loss (gain) on sale of assets	(21)	16	(47)
Impairment loss	-	4,070	-
Foreign exchange (gain) loss	(474)	1,053	666
	6,522	12,093	6,751
Finance costs (income)			
Finance costs	2,636	2,950	2,643
Debt retirement fee	2,318	-	-
Finance income	(66)	(62)	(111)
Gain on financial assests held for trading	(259)	-	-
	4,629	2,888	2,532
<b>Net earnings (loss) before taxes</b>	<b>1,017</b>	<b>(3,605)</b>	<b>1,801</b>
Income tax expense (recovery)			
Current	(347)	600	785
Deferred	70	(603)	120
	(277)	(3)	905
<b>Net earnings (loss)</b>	<b>\$1,294</b>	<b>\$(3,602)</b>	<b>\$896</b>
<b>Other comprehensive income (loss):</b>			
Items that may be reclassified subsequently to net earnings:			
Foreign currency translation differences	(390)	3,612	-
<b>Total comprehensive income</b>	<b>\$904</b>	<b>\$10</b>	<b>\$896</b>
Operating margin before general & administration	20.9%	19.7%	20.7%
Administration as a percentage of revenue	6.3%	5.4%	6.0%
EBITDA as a percentage of revenue	14.6%	14.3%	14.6%

## Summary of Quarterly Results

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

2016					
IN THOUSANDS	Q1	Q2	Q3	Q4	TOTAL
Gross revenue	\$24,231	\$18,182	\$16,821	\$23,845	\$83,079
Operating costs	(16,331)	(16,233)	(15,941)	(17,212)	(65,717)
	7,900	1,949	880	6,633	17,362
General & administration	(1,256)	(1,493)	(1,109)	(1,336)	(5,194)
<b>EBITDA</b>	<b>6,644</b>	<b>456</b>	<b>(229)</b>	<b>5,297</b>	<b>12,168</b>
Depreciation	(1,736)	(1,729)	(1,752)	(1,800)	(7,017)
Finance costs	(735)	(3,093)	(526)	(534)	(4,888)
Foreign exchange gain	458	5	3	8	474
Gain (loss) on financial assets held for trading	-	(863)	66	1,056	259
Gain on sale of assets	5	-	16	-	21
<b>Net earnings (loss) before taxes</b>	<b>4,636</b>	<b>(5,224)</b>	<b>(2,422)</b>	<b>4,027</b>	<b>1,017</b>
Income taxes	(667)	1,427	1,307	(1,790)	277
<b>Net earnings (loss)</b>	<b>\$3,969</b>	<b>\$(3,797)</b>	<b>\$(1,115)</b>	<b>\$2,237</b>	<b>\$1,294</b>
<b>Earnings (loss) per share</b>	<b>\$0.30</b>	<b>\$(0.28)</b>	<b>\$(0.08)</b>	<b>\$0.17</b>	<b>\$0.10</b>

2015					
IN THOUSANDS	Q1	Q2	Q3	Q4	TOTAL
Gross revenue	\$22,575	\$17,476	\$16,509	\$22,889	\$79,449
Operating costs	(15,901)	(16,351)	(15,530)	(15,987)	(63,769)
	6,674	1,125	979	6,902	15,680
General & administration	(1,255)	(1,113)	(918)	(1,018)	(4,304)
<b>EBITDA</b>	<b>5,419</b>	<b>12</b>	<b>61</b>	<b>5,884</b>	<b>11,376</b>
Depreciation	(1,679)	(1,733)	(1,767)	(1,775)	(6,954)
Finance costs	(732)	(709)	(746)	(701)	(2,888)
Foreign exchange gain (loss)	(650)	111	(447)	(67)	(1,053)
Impairment loss	-	-	-	(4,070)	(4,070)
Gain (loss) on sale of assets	3	-	(22)	3	(16)
<b>Net earnings (loss) before taxes</b>	<b>2,361</b>	<b>(2,319)</b>	<b>(2,921)</b>	<b>(726)</b>	<b>(3,605)</b>
Income taxes	(646)	400	380	(131)	3
<b>Net earnings (loss)</b>	<b>\$1,715</b>	<b>\$(1,919)</b>	<b>\$(2,541)</b>	<b>\$(857)</b>	<b>\$(3,602)</b>
<b>Earnings (loss) per share</b>	<b>\$0.13</b>	<b>\$(0.14)</b>	<b>\$(0.19)</b>	<b>\$(0.06)</b>	<b>\$(0.27)</b>



## REVIEW OF FOURTH QUARTER 2016

In Q4, revenue of \$23.8 million, increased by \$1.0 million or 4.2% compared to prior year. Same store revenue of \$23.3 million, increased by \$0.5 million or 2.0% from 2015. The main drivers of the increase were incremental registrations from the ASHL, higher contract revenue, and growth in youth and adult soccer leagues revenue.

Operating cost of \$17.2 million, increased by \$1.2 million or 7.7% compared to Q4 2015. Same store operating cost of \$16.8 million, increased by \$0.8 million or 4.9%. During Q4 2016, higher labour costs were incurred due to scheduled wage increases and performance-based compensation, and a higher volume of maintenance projects were shifted to the final quarter of 2016 compared to the same time last year.

Operating earnings before G&A expenses was \$6.6 million compared to \$6.9 million in 2015.

After recording G&A expenses of \$1.3 million, EBITDA was \$5.3 million compared to \$5.9 million in 2015. G&A increased by \$0.3 million or 31.2% principally due to increased wages as key corporate positions that were vacant in the prior year were filled and performance-based compensation was accrued in 2016 but not required a year ago.

After recording finance costs, depreciation, a gain on foreign exchange and mark-to-market gains on financial instruments (interest rate swap contract) totaling \$1.3 million, net earnings before taxes was \$4.0 million compared to net loss before taxes of \$0.7 million in the fourth quarter of 2015. In 2015 an impairment loss of \$4.1 million was recognized on

a recreation property located in Fort Wayne, Indiana. See **U.S. Facility Operations** for further details. No impairment loss was recognized in 2016.

After income tax, net earnings was \$2.2 million or \$0.17 per share, compared to net loss of \$0.9 million or \$0.06 per share in 2015. A summary of Q4 results is as follows:

IN THOUSANDS	2016	2015
Gross revenue	\$23,845	\$22,889
Operating costs	(17,212)	(15,987)
	6,633	6,902
General & administration	(1,336)	(1,018)
<b>EBITDA</b>	<b>5,297</b>	<b>5,884</b>
Depreciation	(1,800)	(1,775)
Finance costs	(534)	(701)
Impairment loss	-	(4,070)
Gain on financial assets held for trading	1,056	-
Other	8	(64)
<b>Net earnings (loss) before taxes and other</b>	<b>4,027</b>	<b>(726)</b>
Income taxes	(1,790)	(131)
<b>Net earnings (loss)</b>	<b>\$2,237</b>	<b>\$(857)</b>
<b>Other comprehensive income</b>	<b>281</b>	<b>106</b>
<b>Total comprehensive income (loss)</b>	<b>\$2,518</b>	<b>\$(751)</b>
<b>Earnings (loss) per share</b>	<b>\$0.17</b>	<b>\$(0.06)</b>





## REVIEW OF ASSETS

The table below summarizes the Company's asset base:

IN THOUSANDS	2016	2015
Properties	<b>\$101,934</b>	\$103,631
Cash	<b>16,335</b>	10,065
Accounts receivable	<b>2,437</b>	2,326
Prepaid expenses and other assets	<b>1,122</b>	1,270
Inventory	<b>1,138</b>	1,141
Investment properties	<b>566</b>	574
Financial asset held for trading	<b>259</b>	-
Deferred income taxes	<b>1,768</b>	1,597
	<b>\$125,559</b>	\$120,604

During the year ended December 31, 2016, the Company invested \$5.9 million (2015 - \$4.9 million) on capital expenditures related to improving amenities at various recreation facilities. Of the \$5.9 million capital expenditures, \$1.8 million (2015 - \$1.6 million) was funded with lease financing. Expenditures undertaken during the period include furniture, fixtures, and equipment (FF&E) related to the new Calgary facility (see **Review of Fiscal 2016 Operations – Management Contracts** above), new refrigeration equipment, rink boards, ice resurfacing equipment (including four electric resurfacers), computer hardware, and FF&E for our restaurants.

At December 31, 2016, the total property, plant and equipment balance was \$101.9 million compared to \$103.6 million in 2015. The decrease resulted from a combination of new capital expenditures offset by depreciation and foreign currency translation differences that reflected a lower U.S. dollar compared to December 2015.

Investment properties remained consistent with prior year.

Cash on hand at the end of 2016 was higher than 2015 due to increased cash generated from operations, excluding financing costs, and the completion of the refinancing transaction that helped replenish cash reserves (see **Review of Liabilities and Shareholders' Equity – Mortgages** below).

Cash and cash equivalents include \$0.4 million (2015 – nil) of restricted cash representing funds held in trust in accordance with the terms of the Great Plains Recreation Facility operating agreement. These funds are maintained as operating and capital expenditure reserves and the balance will change as reserve requirements are adjusted.

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



## REVIEW OF LIABILITIES AND SHAREHOLDERS' EQUITY

The table below summarizes the Company's capital structure:

IN THOUSANDS	2016	2015
Debt	\$55,593	\$53,152
Accounts payable	9,455	7,938
Deferred revenue and customer deposits	12,635	12,519
Finance leases	3,413	2,610
Deferred income taxes	898	657
	81,994	76,876
Shareholders' equity	43,565	43,728
	\$125,559	\$120,604

Interest bearing liabilities, which include debt and finance leases, totaled \$59.0 million as at December 31, 2016, compared to \$55.8 million as at December 31, 2015. The net increase of \$3.2 million resulted from additional debt borrowings from the refinancing of \$42.9 million during 2016 (see **Review of Liabilities and Shareholders' Equity – Mortgages** below) and additional equipment leases.

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, 2016, the working capital deficit was \$5.9 million compared to \$11.1 million at December 31, 2015. This improvement was principally due to an increase of the Company's cash position at the end of the year (see **Review of Assets** above and **Review of Liabilities and Shareholders' Equity – Mortgages** below).

### Mortgages

During Q2 2016, the Company borrowed \$48.5 million of debt on ice rink properties. The Company used these funds to extinguish \$42.9 million of existing debt. As a result of the transaction, the Company incurred an early repayment fee of \$2.3 million that has been recognized as fee on settlement of debt in the statement of earnings and comprehensive income and as part of interest paid in the statement of cash flows for the year ended December 31, 2016. The resulting new debt package increased the Company's cash position by approximately \$3.0 million, reduced borrowing rates, and improved annual cash flow.

As at December 31, 2016, debt consists of seven credit facilities, five of which have been drawn, as follows:

1. \$38.5 million loan amortized over 15 years, maturing on May 25, 2023, interest at Prime rate plus 0.50% per annum payable monthly. The Company entered into an interest rate swap contract to fix the interest rate at 3.52% per annum payable monthly. At December 31, 2016, the balance outstanding was \$37.5 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, 2016, the balance outstanding was \$9.7 million;
3. \$5.4 million (US\$5.0 million) loan amortized over 15 years, maturing on August 1, 2019, interest at LIBOR plus 2.5% per annum payable monthly. At December 31, 2016, the balance outstanding was \$5.6 million (US\$4.2 million). This loan is denominated in U.S. currency;
4. \$2.8 million (US\$2.2 million) loan amortized over 15 years, maturing on February 1, 2020, interest at LIBOR plus 2.5% per annum payable monthly. At December 31, 2016, the balance outstanding was \$2.6 million (US\$1.9 million). This loan is denominated in U.S. currency;
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;
6. \$3.3 million seasonal demand revolving operating loan, interest at Prime rate plus 0.50% per annum. Draws from this operating loan will be available from June 1, 2017 and amounts drawn shall be repaid by November 30, 2017. This loan matures on November 30, 2017; and
7. \$5.0 million demand revolving capital expenditure loan amortized over 15 years, interest at Prime rate plus 0.50% per annum. At December 31, 2016, the balance outstanding was \$0.5 million.

We are in full compliance with debt covenants as at December 31, 2016 and we expect to continue to be in compliance during the coming fiscal year.

### Customer Deposits and Deferred Revenue

A large component of our current liabilities is comprised of deferred revenue related to league registrations and customer deposits received in advance which totaled \$12.6 million as at December 31, 2016 (2015 - \$12.5 million). We recognize revenue as ice or field time is used; many of the seasonal contracts and league registrations are paid in advance.

## Finance Leases

We use finance leases to finance the acquisition of various types of heavy equipment used in our facilities such as ice resurfacers and refrigeration equipment. In 2016, we installed new refrigeration equipment and ice resurfacers that have lease terms of five years.

## Liquidity and Capital Resources

Canlan's cash balance as at December 31, 2016 was \$16.3 million compared to \$10.1 million from December 31, 2015.

As discussed above, financing activities during 2016 included the refinancing of \$42.9 million of term loans with \$48.5 million of new credit facilities prior to maturity, which achieved the objectives of reducing annual borrowing costs and annual debt service payments. In addition, the refinancing transaction replenished cash reserves that had been utilized in the past several years to complete expansion projects.

During 2016, we also utilized \$1.0 million to reduce the principal on finance leases and \$1.1 million to pay dividends on common shares. On November 28, 2016, the Company continued its dividend policy and declared a quarterly dividend of \$0.02 per share on a record date on December 30, 2016 which was paid on January 17, 2017.

Investment activities in 2016 included \$4.0 million incurred on facility capital projects. Facility capital expenditures consisted of furniture, fixtures, and equipment (FF&E) related to the new Calgary facility (see **Review of Fiscal 2016 Operations – Management Contracts** above), new refrigeration equipment, rink boards, ice resurfacing equipment, computer hardware, and FF&E for our restaurants.

## Summarized Statement of Cash Flows:

IN THOUSANDS	2016	2015
<b>Cash inflows and (outflows) by activity</b>		
Operating activities	\$8,889	\$10,324
Financing activities	1,422	(3,126)
Investing activities	(4,041)	(10,667)
	6,270	(3,469)
<b>Cash position, beginning of year</b>	<b>10,065</b>	<b>13,534</b>
<b>Cash position, end of year</b>	<b>\$16,335</b>	<b>\$10,065</b>
<b>Key ratios</b>		
Working capital	\$ (5,886)	\$ (11,056)
Debt to equity ratio	1.35:1	1.28:1

As illustrated in the table above, the reduction in our working capital deficiency and the increase in the debt to equity ratio at the end of 2016 were directly related to the effect of the

debt refinancing transaction that was completed in 2016. The debt to equity ratio is expected to continue meeting the lenders' covenant requirement in 2017.

## 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 lowest 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.

After the payment of \$2.3 million in early debt retirement fees, cash flow from operating activities was \$9.0 million in 2016 compared to \$10.0 million in 2015. After accounting for additional bank financing, debt repayments, capital expenditures, and dividends paid, cash increased by \$6.3 million in 2016.

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

IN THOUSANDS	2016	2015
EBITDA	\$12,168	\$11,376
Changes in working capital items	1,667	1,625
Net finance costs	(5,087)	(2,841)
Income tax expense	347	(600)
Foreign exchange	(138)	424
Cash flow from operations	8,957	9,984
<b>Less</b>		
Mortgage principal reduction	(45,484)	(4,075)
New debt	49,000	2,797
Purchase of ice rink property	-	(7,360)
Capital expenditures	(4,062)	(3,341)
Equipment lease payments	(1,027)	(781)
Dividends paid	(1,067)	(1,067)
Net proceeds on sale of assets	21	34
Effect of changes in foreign currency rates	(68)	340
Change in cash position for the year	\$6,270	\$ (3,469)

## Contractual Obligations

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

IN THOUSANDS	2017	2018	2019	2020	2021	THEREAFTER	TOTAL
Long-term debt							
Mortgage principal and interest	\$5,550	\$5,013	\$9,188	\$6,134	\$4,148	\$35,096	\$65,129
Equipment leases, including interest	1,215	998	795	526	263	10	3,807
	6,765	6,011	9,983	6,660	4,411	35,106	68,936
Land and building leases (off balance sheet financing)	1,168	1,183	1,183	880	852	8,121	13,387
	\$7,933	\$7,194	\$11,166	\$7,540	\$5,263	\$43,227	\$82,323

## SHARE CAPITAL

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

	2016	2015
Shares issued and outstanding	13,337,448	13,337,448
Weighted average number of shares outstanding	13,337,448	13,337,448

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

The Company has outstanding stock appreciation rights as follows:

EXPIRY DATE	NUMBER OF RIGHTS AT DECEMBER 31, 2016		EXERCISE PRICE
	OUTSTANDING	EXERCISABLE	
April 15, 2017	11,667	-	\$2.60
June 15, 2017	35,001	11,667	\$2.51
November 28, 2017	23,333	11,667	\$3.14
March 23, 2018	35,000	11,667	\$3.30
November 29, 2019	562,500	-	\$3.34
	667,501	35,001	

During the year, 331,269 SARs were exercised at a weighted average exercise price of \$2.37.

The liability related to the SARs program is adjusted quarterly based on the fair value of the SARs as estimated using the Black-Scholes pricing model. As at December 31, 2016 the Company recorded a liability in the amount of \$0.1 million. For the year ended December 31, 2016, fair value measurement of the SARs liability resulted in a net compensation expense of \$0.2 million (2015 - \$0.3 million) that was recognized in the statement of earnings and comprehensive income.

## TRANSACTIONS WITH RELATED PARTIES

Canlan's controlling shareholder, Bartrac Investments Ltd., owns approximately 10.1 million shares of the Company, or 75% 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 2016 and 2015. The Company paid \$0.2 million (2015 - \$0.1 million) in directors' fees during 2016.

## FINANCIAL INSTRUMENTS

The Company initially measures all its financial instruments at fair value. Subsequent measurement and treatment of any gain or loss is recorded as follows:

- Loans and receivables are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise of cash and cash equivalents and accounts receivable.
- Non-derivative financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. Non-derivative financial liabilities comprise of accounts payable and accrued liabilities, obligations under finance leases and debt.
- Held for trading financial assets and liabilities are measured at the fair value at the balance sheet date with any gain or loss recognized immediately in net earnings. The Company has entered into an interest rate swap agreement in June 2016 to fix the interest rate on a portion of its debt on ice rinks. The fair value of the instrument has been presented as financial asset held for trading on the statement of financial position. At December 31, 2016, the fair value was \$0.3 million. Changes in the fair value of the instrument are recognized in net earnings. For the year ended December 31, 2016, a gain of \$0.3 million was recognized as part of finance cost.
- Transaction costs that are directly attributable to the issuance of financial assets or liabilities are accounted for as part of the carrying cost at inception and are recognized over the term of assets or liabilities using the effective interest method.

The Company does not have held to maturity investments at December 31, 2016. The Company had no "other comprehensive income or loss" transactions related to financial instruments during the year ended December 31, 2016 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, 2016.

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, 2016. 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, 2016.

## RISK FACTORS

Canlan is engaged primarily in the operation of multi-pad recreation facilities throughout North America, and is exposed to a number of risks and uncertainties that can affect operating performance and profitability. Our past performance is no guarantee of our performance in future periods. Some of the risks and uncertainties we are exposed to, together with a description of management's action to minimize our exposure, are summarized below.

### Leverage and Ability to Service Indebtedness

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

- The Company will have to use a significant portion of its cash flow from operations for debt service, rather than for operations.
- The Company may not be able to obtain additional debt financing for future working capital, capital expenditures or other corporate purposes.
- The Company could be more vulnerable to economic downturns and less able to take advantage of significant



business opportunities or to react to changes in market or industry conditions.

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

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

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

#### **Mitigating factors and strategies:**

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

### **Infrastructure Expenditures**

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

#### **Mitigating factors and strategies:**

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

### **Incurrence of Debt and the Granting of Security Interests**

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

#### **Mitigating factors and strategies:**

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

### **Insurance**

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

#### **Mitigating factors and strategies:**

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

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

The Company's expansion strategies include certain markets in the U.S. As such, the Company faces the risks of operating in new markets where the demographics, consumer preferences, and economic conditions can be very different from Canadian

markets in which the Company primarily operates. Should market conditions of new U.S. locations vary significantly from what was anticipated, the Company's financial results could be adversely affected.

In addition, the Company is exposed to currency risk on sales, purchases and borrowings 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 operating costs, debt payments, and other cash 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 58% 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.
- Certain term debt and finance lease carry seasonal repayment schedules.
- Seasonal credit line has been made available by the Company's lender.

**Competition**

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

**Mitigating factors and strategies:**

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

**Employee and Union Relations**

The Company has unionized employees at four of its facilities. The presence of a unionized work force increases the possibility that a labour dispute will effect operations at a facility. The four union agreements will expire on March 2017, October 2017, February 2018, and October 2018. 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. As the Company's ability to retain these executive officers is important to its success and growth, the loss of its executive officers 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:**

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

#### **Interest Rate Risk**

Mortgage debt of \$18.5 million, is subject to variable interest rates. For every 1% change in base market rates, interest expense will change by \$185,000 per annum.

#### **Mitigating factors and strategies:**

- The Company has fixed the interest rate on 67% of its loans, which totals \$37.5 million.

#### **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% of the aggregate voting power of the Corporation, which will allow it to control substantially all the actions taken by the shareholders of the Company, including the election of the directors. In addition, at the date of this MD&A, a Trust in the U.S. holds 2,118,600 Common shares, which represents 15.9% of total outstanding Common Shares. Such concentration of ownership could also have the effect of delaying, deterring, or preventing a change of control of the Company that might otherwise be beneficial to its shareholders and may also discourage acquisition bids for the Company and limit the amount certain investors may be willing to pay for the Common Shares.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Canlan's significant accounting policies are described in Note 3 to the consolidated financial statements. The preparation of the consolidated financial statements in conformity with IFRS requires us to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Key sources of estimation uncertainty are the areas where assumptions and estimates have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities. These are:

### Revenue Recognition

Revenue from sport surface rental contracts, programs and leagues is recognized as games and lessons are played and collection is reasonably assured. Deferred revenue relates to amounts received in advance for the Company's adult recreational leagues. A certain amount of judgment is required in the determination of revenue recognition based on the Company's estimates. Any differences are recognized upon completion of the season.

### Accounts Receivable

In determining the valuation of accounts receivable and the allowance for doubtful accounts, the Company relies on current customer information, payment history, and trends.

### Impairment and Recoverability of Property Plant and Equipment

When impairment indicators exist, the recoverability of the Company's recreational properties is based on future discounted cash flows expected to be generated from such assets. These cash flows are based on management's approved budgets and projections. When appropriate, third-party appraisals will also be used to assess the recoverability of recreational properties. Judgments are required in assessing impairment indicators.

### Useful Lives of Property Plant and Equipment

Property, plant, and equipment are depreciated on a straight-line basis over their estimated useful life. Approximately 81% of the Company's total assets are comprised of recreational properties. The selection method of depreciation and length of the depreciation period could have a material impact on depreciation expense and the net book value of the Company's assets. Assets may become obsolete or require replacement before the end of their estimated useful lives, in which case any remaining unamortized costs would be written off.

### Accounting for Stock-based Compensation

The fair value of the Company's stock appreciation rights ("SARs") is based on certain estimates used in applying the Black-Scholes pricing model. The rights are cash-settled and are classified as a liability and re-measured to fair value at each reporting date by recognizing compensation cost over the life of the SARs based on the vesting terms of each tranche.

### Deferred Income Tax

Deferred income tax assets and liabilities are calculated by assessing temporary differences resulting from differing treatment of items for tax and accounting purposes and net operating losses carried forward. The valuation of deferred tax assets are measured based on management's estimates of future taxable income and expected timing of reversals of temporary differences.



**Michael F. Gellard**  
Senior VP and Chief Financial Officer





# Independent Auditors' Report & Consolidated Financial Statements



**KPMG LLP**

PO Box 10426 777 Dunsmuir Street  
Vancouver BC V7Y 1K3, Canada  
Telephone: (604) 691-3000  
Fax: (604) 691-3031

**INDEPENDENT AUDITORS' REPORT**

To the Shareholders of Canlan Ice Sports Corp.

We have audited the accompanying consolidated financial statements of Canlan Ice Sports Corp., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, the consolidated statements of earnings and comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

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

**Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Canlan Ice Sports Corp. as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants  
March 21, 2017  
Vancouver, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

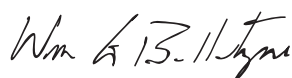
Consolidated Statements of Financial Position  
(Expressed in thousands of dollars)  
Years ended December 31, 2016 and 2015

	2016	2015
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents (note 4)	\$16,335	\$10,065
Accounts receivable	2,437	2,326
Inventory (note 5)	1,138	1,141
Prepaid expenses	817	891
Financial asset held for trading (note 16a)	259	-
	20,986	14,423
Non-current assets		
Property, plant and equipment - facilities (note 6)	101,934	103,631
Investment properties (note 7)	566	574
Deferred tax assets (note 15b)	1,768	1,597
Other assets	305	379
	104,573	106,181
	<b>\$125,559</b>	<b>\$120,604</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable and accrued liabilities (note 8)	\$9,455	\$7,938
Deferred revenue and customer deposits	12,635	12,519
Current portion of:		
Obligations under finance leases (note 9)	1,087	879
Debt (note 10)	3,695	4,143
	26,872	25,479
Non-current liabilities		
Obligations under finance leases (note 9)	2,326	1,731
Debt (note 10)	51,898	49,009
Deferred tax liabilities (note 15b)	898	657
	<b>55,122</b>	<b>51,397</b>
Total liabilities	81,994	76,876
Shareholders' equity		
Share capital (note 11)	63,109	63,109
Contributed surplus	543	543
Foreign currency translation reserve	3,222	3,612
Deficit	(23,309)	(23,536)
	43,565	43,728
	<b>\$125,559</b>	<b>\$120,604</b>

Commitments and contingencies (note 14)

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

Approved on behalf of the Board:



**W. GRANT BALLANTYNE**



**JOEY ST-AUBIN**



Consolidated Statements of Earnings and Comprehensive Income  
(Expressed in thousands of dollars, except for share and per share amounts)  
Years ended December 31, 2016 and 2015

	2016	2015
Revenue		
Ice rink and recreational facilities (note 19)	\$83,079	\$79,449
Expenses (note 21)		
Ice rinks and recreational facilities		
Salaries, wages and benefits	31,608	30,451
Selling and customer service	11,515	11,641
Utilities	8,155	7,756
Cost of goods sold	5,668	5,640
Repairs and maintenance	4,564	4,135
Property tax	3,023	2,987
Facility lease	1,184	1,159
	65,717	63,769
Earnings from ice rink and recreational facilities before the undernoted	17,362	15,680
General and administration expenses (notes 13 and 21)	5,194	4,304
Earnings before the undernoted	12,168	11,376
Other expenses (income) (note 21)		
Depreciation	7,017	6,954
Loss (gain) on sale of assets	(21)	16
Impairment loss (note 6)	-	4,070
Foreign exchange loss (gain)	(474)	1,053
	6,522	12,093
Finance income (costs)		
Finance income	66	62
Finance costs	(2,636)	(2,950)
Fee on settlement of debt (note 10)	(2,318)	-
Gain on financial assets held for trading (note 16)	259	-
	(4,629)	(2,888)
Earnings (loss) before income taxes	1,017	(3,605)
Income tax expense (recovery) (note 15)		
Current	(347)	600
Deferred	70	(603)
	(277)	(3)
Net earnings (loss)	\$1,294	\$(3,602)
Other comprehensive income (loss)		
Items that may be reclassified subsequently to net earnings		
Foreign currency translation differences	\$(390)	\$3,612
Total comprehensive income	904	10
Basic and fully diluted earnings (loss) per share	\$0.10	\$(0.27)
Weighted average common shares issued for basic and diluted earnings per share calculations	13,337,448	13,337,448

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

Consolidated Statements of Changes in Equity  
(Expressed in thousands of dollars)  
Years ended December 31, 2016 and 2015

	SHARE CAPITAL	CONTRIBUTED SURPLUS	FOREIGN CURRENCY TRANSLATION RESERVE	DEFICIT	TOTAL
Balance at December 31, 2014	\$63,109	\$543	\$ -	\$(18,867)	\$44,785
Net loss	-	-	-	(3,602)	(3,602)
Other comprehensive income	-	-	3,612	-	3,612
Dividends to common shareholders	-	-	-	(1,067)	(1,067)
Balance at December 31, 2015	63,109	543	3,612	(23,536)	43,728
Net earnings	-	-	-	1,294	1,294
Other comprehensive loss	-	-	(390)	-	(390)
Dividends to common shareholders	-	-	-	(1,067)	(1,067)
Balance at December 31, 2016	\$63,109	\$543	\$3,222	\$(23,309)	\$43,565

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

Consolidated Statements of Cash Flows  
(Expressed in thousands of dollars)  
Years ended December 31, 2016 and 2015

	2016	2015
Cash provided by (used in)		
Operating		
Net earnings (loss)	\$1,294	\$(3,602)
Adjustments for		
Depreciation	7,017	6,954
Loss (gain) on sale of assets	(21)	16
Impairment loss	-	4,070
Net finance costs	4,629	2,888
Deferred income taxes	70	(603)
Foreign exchange (gain) loss	(612)	1,477
Net change in non-cash working capital (note 20)	1,667	1,625
Interest paid (note 10)	(2,835)	(2,903)
Fee on settlement of debt (note 10)	(2,318)	-
Interest received	66	62
	8,957	9,984
Financing		
Principal repayments of debt	(45,484)	(4,075)
Increase in principal of debt	49,000	2,797
Principal repayments on obligations under finance lease	(1,027)	(781)
Payment of dividends on common shares	(1,067)	(1,067)
	1,422	(3,126)
Investments		
Net proceeds on sale of assets	21	34
Purchase of recreation property	-	(7,360)
Expenditures on ice rink and recreational facilities	(3,989)	(3,182)
Expenditures on other assets	(73)	(159)
	(4,041)	(10,667)
Effect of changes in foreign currency rates on cash and cash equivalents	(68)	340
Increase (decrease) in cash and cash equivalents	6,270	(3,469)
Cash and cash equivalents, beginning of year	10,065	13,534
Cash and cash equivalents, end of year	\$16,335	\$10,065

Supplemental cash flow information (note 20)

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

## 1. Reporting Entity:

Canlan Ice Sports Corp. and its subsidiaries (collectively referred to as the "Company") focus on the development, lease, acquisition and operation of multi-purpose recreation and entertainment facilities in North America. Canlan Ice Sports Corp. is a company incorporated in Canada, whose shares are publicly traded on the Toronto Stock Exchange. The Company's head office is located at 6501 Sprott Street, Burnaby, British Columbia, Canada.

## 2. Basis of Preparation:

### (a) Statement of compliance:

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Directors on March 21, 2017.

### (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 functional and presentation currency is the Canadian dollar. The functional currency of the Company's 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.

Prior to January 1, 2015, the functional currency of the Company's U.S. subsidiaries was determined to be the Canadian dollar but should have been the U.S. dollar. The impact of this difference on prior years was not material and accordingly the Company corrected the difference in the consolidated financial

statements for the year ended December 31, 2015. This resulted in an increase to assets of \$1,080,000 as at January 1, 2015, a decrease to foreign exchange loss of \$144,000 for the year ended December 31, 2015, and an increase to other comprehensive income of \$936,000 for the year ended December 31, 2015.

Transactions in currencies other than the Company's functional currency, and not related to the Company's U.S. subsidiaries, are translated at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on the retranslation are recognized in net earnings.

### (d) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Key sources of estimation uncertainty are the areas where assumptions and estimates have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities. These are:

- Accounts receivable - in determining the valuation of accounts receivable and the allowance for doubtful accounts, the Company relies on current customer information, payment history, and trends.
- Accounting for stock-based compensation - the fair value of the Company's stock appreciation rights ("SARs") is based on certain estimates used in applying the Black-Scholes pricing model. The rights are cash-settled and are classified as a liability and re-measured to fair value at each reporting date by recognizing compensation cost over the life of the SARs based on the vesting terms of each tranche.



- Revenue recognition - revenue from recreational facility operations is recognized as the product or service is supplied. Deferred revenue relates to amounts received in advance for the Company's sports leagues; revenue is recognized as games are played. A certain amount of judgment is required in the determination of revenue recognition based on the Company's estimates. Any differences are recognized upon completion of the season.
- Deferred income tax - deferred income tax assets and liabilities are calculated by assessing temporary differences resulting from differing treatment of items for tax and accounting purposes and net operating losses carried forward. The valuation of deferred tax assets are measured based on management's estimates of future taxable income and expected timing of reversals of temporary differences.

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

- Recoverability of property, plant, and equipment - the recoverability of the Company's recreational properties is based on future discounted cash flows expected to be generated from such assets. These cash flows are based on management's approved budgets and projections. When appropriate, third-party appraisals will also be used to assess the recoverability of recreational properties.
- Useful lives of property, plant, and equipment - property, plant, and equipment are depreciated on a straight-line basis over their estimated useful life. Approximately 82% of the Company's total assets are comprised of recreational properties. The selection method of depreciation and length of the depreciation period could have a material impact on depreciation expense and the net book value of the Company's assets. Assets may become obsolete or require replacement before the end of their estimated useful lives, in which case any remaining unamortized costs would be written off.

### 3. Significant Accounting Policies:

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

#### (a) Basis of consolidation:

##### (i) Subsidiaries:

These consolidated financial statements include the accounts of the Company and the following wholly-owned subsidiaries:

- Les Quatre Glaces (1994) Inc.
- Canlan Ice Sports (USA) Corp.
- P.C. Development Inc.

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

##### (ii) Transactions eliminated on consolidation:

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

#### (b) Inventory:

Inventory consists of hockey equipment, supplies and sportswear held for sale, and food and beverage supplies. Inventory is recorded at the lower of cost and estimated net realizable value. The cost of inventory is based on the first-in, first-out principle. Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling expenses.

#### (c) Property, plant, and equipment:

##### (i) Recognition and measurement:

Items of property, plant, and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, costs directly attributable to bringing the assets to a working condition for their intended use, and borrowing costs on qualifying assets.

When parts of an item of property, plant, and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant, and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized within gain or loss on sale of assets.

##### (ii) Subsequent costs:

The cost of replacing a component of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part

will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in net earnings as incurred.

**(iii) Depreciation:**

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

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

ASSET	
Buildings	40 years
Rink board systems	25 years
Refrigeration equipments	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) Other assets:**

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

**(f) 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.

**(g) 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.

**(h) Revenue recognition:**

**(i) Ice and field time:**

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

**(ii) Goods sold:**

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

**(iii) Sponsorship:**

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

(iv) **Management contracts:**

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

(v) **Rental income:**

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

**(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:**

(i) **Non-derivative financial assets:**

The Company has the following non-derivative financial assets: loans and receivables. Such financial assets have fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

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

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.

(ii) **Non-derivative financial liabilities:**

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

(iii) **Derivative financial instruments:**

Derivative instruments are financial contracts whose value is derived from interest rates, foreign exchange rates or other financial or commodity indices. The Company entered into an interest rate swap contract on June 21, 2016 to manage the exposure to market risks from changing interest rates (note 10). This instrument has not been designated as a hedge and is marked to market. 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 recorded a \$259,000 financial asset held for trading as of December 31, 2016 (2015 – nil).

**(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. On January 1, 2010, the Company established 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 \$349,000 (2015 - \$357,000) 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.

**(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 reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**(o) Impairment:**

**(i) Financial assets:**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through net earnings.



(ii) **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 not yet adopted:**

- (i) On May 28, 2014 the IASB issued IFRS 15 – *Revenue from Contracts with Customers*. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company has performed the five-step analysis in accordance with IFRS 15 on its major revenue streams to assess the potential impact of the new standard. The Company is still in the process of assessing whether certain of its revenue streams should be recognized at a point in time or over time, and the final assessment of this decision will determine the extent to which this standard is expected to have a significant effect on the consolidated financial statements.
- (ii) IFRS 9 – *Financial Instruments*, issued in July 2014 replaces IAS 39 – *Financial Instruments: Recognition and Measurement* and deals with classification and measurement of financial assets and financial liabilities. The requirements of IFRS 9 represent a significant change from the existing requirements in IAS 39. The

changes will affect the classification and measurement of financial assets and financial liabilities, the rules and requirements relating to hedge accounting as well as impairment of financial assets.

The mandatory effective date of IFRS 9 is January 1, 2018 and is required to be applied retrospectively when initially applied. The Company performed an analysis of its financial assets and liabilities and determined that adoption of this standard is not expected to have a significant effect on the consolidated financial statements of the Company.

- (iii) IFRS 16 – *Leases* was issued in January 2016 and sets out a new model for lease accounting, replacing IAS 17 – *Leases*. IFRS 16 will be effective for accounting periods beginning on or after January 1, 2019. The Company is currently assessing the potential impact, if any, on its consolidated financial statements resulting from the application of IFRS 16.

#### 4. Restricted cash:

Cash and cash equivalents include \$381,000 (2015 – nil) of restricted cash representing funds held in trust in accordance with the terms of an operating agreement related to a recreation facility operated by the Company on behalf of a third party. These funds are maintained as operating and capital expenditure reserves and the balance will change as reserve requirements are adjusted.

#### 5. Inventory:

	2016	2015
Sports store	\$754	\$735
Food and beverage	384	406
	<u>\$1,138</u>	<u>\$1,141</u>

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.

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

	LAND	BUILDINGS & BUILDING IMPROVEMENTS	LEASEHOLD IMPROVEMENTS	RINK BOARD SYSTEMS	REFRIGERATION EQUIPMENT	MACHINERY & EQUIPMENT	COMPUTERS, FURNITURE & FIXTURES	ICE RESURFACING EQUIPMENT	WORK IN PROCESS	TOTAL
<b>Cost</b>										
Balance at December 31, 2014	\$15,574	\$105,659	\$1,896	\$4,878	\$11,440	\$12,067	\$9,046	\$4,936	\$206	\$165,702
Reclassification	-	-	-	-	29	-	-	-	(29)	-
Additions	635	7,473	81	276	2,407	628	468	8	163	12,139
Disposals	-	-	-	(141)	(50)	(35)	(6)	(270)	-	(502)
Effect of movements in exchange rates	765	3,329	-	154	591	354	330	100	1	5,624
Balance at December 31, 2015	16,974	116,461	1,977	5,167	14,417	13,014	9,838	4,774	341	182,963
Reclassification	-	28	-	-	91	-	19	-	(138)	-
Additions	-	754	68	264	2,618	577	595	820	123	5,819
Disposals	-	-	-	-	-	-	-	(270)	-	(270)
Effect of movements in exchange rates	(104)	(559)	-	(18)	(77)	(48)	(40)	(11)	-	(857)
Balance at December 31, 2016	\$16,870	\$116,684	\$2,045	\$5,413	\$17,049	\$13,543	\$10,412	\$5,313	\$326	\$187,655
<b>Accumulated depreciation and impairment losses</b>										
Balance at December 31, 2014	\$ -	\$(40,272)	\$(424)	\$(2,091)	\$(6,546)	\$(7,138)	\$(7,618)	\$(3,931)	\$ -	\$(68,020)
Depreciation for the year	-	(3,828)	(207)	(205)	(646)	(934)	(682)	(295)	-	(6,797)
Impairment loss	-	(3,644)	-	-	-	(426)	-	-	-	(4,070)
Disposals	-	-	-	124	23	34	-	255	-	436
Effect of movements in exchange rates	-	(429)	-	(14)	(46)	(89)	(254)	(49)	-	(881)
Balance at December 31, 2015	-	(48,173)	(631)	(2,186)	(7,215)	(8,553)	(8,554)	(4,020)	-	(79,332)
Depreciation for the year	-	(3,833)	(230)	(217)	(699)	(941)	(537)	(413)	-	(6,870)
Disposals	-	-	-	-	-	-	-	270	-	270
Effect of movements in exchange rates	-	140	-	2	8	23	33	5	-	211
Balance at December 31, 2016	\$ -	\$(51,866)	\$(861)	\$(2,401)	\$(7,906)	\$(9,471)	\$(9,058)	\$(4,158)	\$ -	\$(85,721)
<b>Carrying amounts</b>										
Balance at December 31, 2015	\$16,974	\$68,288	\$1,346	\$2,981	\$7,202	\$4,461	\$1,284	\$754	\$341	\$103,631
Balance at December 31, 2016	\$16,870	\$64,818	\$1,184	\$3,012	\$9,143	\$4,072	\$1,354	\$1,155	\$326	\$101,934

On January 30, 2015, the Company completed the purchase of a recreation facility in Lake Barrington, Illinois for \$7,121,000 (US\$5,600,000).

For the year ended December 31, 2016, no impairment losses were recognized. For the year ended December 31, 2015, the Company recognized an impairment loss of \$4,070,000 (US\$3,183,000) related to an ice facility in the U.S. The ice facility is considered a cash-generating unit ("CGU") for impairment purposes. In 2015, the actual cash flows from operating the ice facility did not meet management's projections, and accordingly management estimated the recoverable amount of the CGU, which was based on its value in use, utilizing a discounted cash flow model. The estimate of value in use was determined using a pre-tax discount rate of 11% and a terminal growth rate of 2%. Cash flows used in the value in use calculation were based on management's one-year budgeted projections for 2016, and incorporated a 20% annual growth rate for the following four years, and a stabilized growth rate thereafter.

Included in property, plant, and equipment - facilities are assets under finance leases with a cost of \$5,934,000 (2015 - \$4,202,000) and accumulated depreciation of \$1,323,000 (2015 - \$929,000).

## 7. Investment properties:

	COST	ACCUMULATED AMORTIZATION	CARRYING AMOUNT
December 31, 2014	\$570	\$ -	\$570
Effect of movements in exchange rate	4	-	4
December 31, 2015	\$574	\$ -	\$574
Effect of movements in exchange rate	(8)	-	(8)
December 31, 2016	\$566	\$ -	\$566

The fair value of the Company's investment properties, which consist of land parcels, at December 31, 2016 was \$1,703,000 (2015 - \$1,562,000). The Company uses a variety of valuation techniques and makes assumptions that are based on market conditions existing at each reporting period to determine fair value. The Company's investment properties are categorized as Level 3 within the fair value hierarchy. As such, the fair value was determined using valuation techniques incorporating discounted cash flows and expertise of an independent local real estate agent not related to the Company. The cash flows were discounted at a pre-tax rate of 4.17% over the remaining lease term and based on anticipated renewal terms. The independent real estate agent has professional qualifications

and experience in the location and category of investment property being valued.

For the years ended December 31, 2016 and 2015, no impairment losses were recognized. In 2016, income earned on investment properties was \$96,000 (2015 - \$93,000) with no direct expenses in 2016 (2015 - nil).

## 8. Accounts payable and accrued liabilities:

Accounts payable and accrued liabilities consist of the following:

	2016	2015
Wages payable	\$2,943	\$2,355
Trade payables	2,865	2,342
Other accrued liabilities	2,522	2,492
Indirect tax payables	589	491
Income tax payable	479	56
Stock appreciation rights	57	202
	<b>\$9,455</b>	<b>\$7,938</b>

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

## 9. Obligations under finance leases:

Total minimum lease payments are as follows:

	2016	2015
Not later than one year	\$1,215	\$988
Later than one year and not later than five years	2,582	1,939
Later than five years	10	-
	<b>3,807</b>	<b>2,927</b>
Interest (rates vary from 3 % to 7%)	394	317
Present value of minimum finance lease payments	3,413	2,610
Current portion	1,087	879
Long-term portion	<b>\$2,326</b>	<b>\$1,731</b>

Lease obligations are secured directly by the leased assets.

Interest of \$131,000 (2015 \$109,000) relating to finance lease obligations has been included in finance costs.



## 10. Debt:

	MATURITY DATES	INTEREST RATES	2016	2015
Fixed rate	2018	6.79%	\$ -	\$19,500
	2019	5.97%	-	7,957
	2023	3.52%	37,518	-
Variable rate	2018	Prime + 0.75%	-	13,331
	2018	BA + 1.75%	-	3,410
	2023	Prime + 0.50%	9,739	-
	2017	Prime + 0.50%	500	-
	2019	LIBOR + 2.50%	5,636	6,272
	2020	LIBOR + 2.50%	2,593	2,877
			55,986	53,347
Deferred financing costs			(393)	(195)
			55,593	53,152
Current portion			3,695	4,143
Non-current portion			\$51,898	\$49,009

In June 2016, the Company borrowed \$48,500,000 of debt on ice rink properties. The Company used these funds to extinguish \$42,900,000 of existing debt. As a result of the refinancing, the Company incurred an early repayment fee of \$2,318,000 that has been recognized as a fee on settlement of debt in the statement of earnings and comprehensive income and as part of interest paid in the statement of cash flows for the year ended December 31, 2016.

As at December 31, 2016, debt consists of seven credit facilities, five of which have been drawn, as follows:

- \$38,500,000 loan amortized over 15 years, maturing on May 25, 2023, interest at Prime rate plus 0.50% per annum payable monthly. The Company entered into an interest rate swap contract (note 16) to fix the interest rate at 3.52% per annum payable monthly. At December 31, 2016, the balance outstanding was \$37,518,000;
- \$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, 2016, the balance outstanding was \$9,739,000;
- \$5,433,000 (US\$4,973,000) loan amortized over 15 years, maturing on August 1, 2019, interest at LIBOR plus 2.5% per annum payable monthly. At December 31, 2016, the balance outstanding was \$5,636,000 (US\$4,197,000). This loan is denominated in U.S. currency;

- \$2,797,000 (US\$2,200,000) loan amortized over 15 years, maturing on February 1, 2020, interest at LIBOR plus 2.5% per annum payable monthly. At December 31, 2016, the balance outstanding was \$2,593,000 (US\$1,931,000). This loan is denominated in U.S. currency;

- \$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;

- \$3,255,000 seasonal demand revolving operating loan, interest at Prime rate plus 0.50% per annum. Draws from this operating loan will be available from June 1, 2017 and amounts drawn shall be repaid by November 30, 2017. This loan matures on November 30, 2017; and

- \$5,000,000 demand revolving capital expenditure loan amortized over 15 years, interest at Prime rate plus 0.50% per annum. At December 31, 2016, the balance outstanding was \$500,000.

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 \$176,000 (2015 - \$74,000) was recorded in finance costs.

## 11. 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, 2016 and 2015	13,337,448	\$63,109

On November 28, 2016, the Company declared a quarterly dividend of \$0.02 per share which was paid on January 17, 2017. In addition, the Company paid quarterly dividends of \$0.02 per share on each of April 15, 2016, July 15, 2016, and October 14, 2016 respectively.

## 12. 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 (2006). 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.

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

	NUMBER OF SARs	WEIGHTED AVERAGE EXERCISE PRICE
Number of SARs outstanding, December 31, 2014	649,835	\$2.38
Granted	35,000	3.30
Exercised	(213,398)	2.31
Forfeited	(35,167)	2.30
Number of SARs outstanding, December 31, 2015	436,270	2.50
Granted	562,500	3.34
Exercised	(331,269)	2.37
Balance, December 31, 2016	667,501	\$3.27
Exercisable, December 31, 2015	120,434	\$2.43
Exercisable, December 31, 2016	35,001	\$2.98

The following table summarizes information about the stock appreciation rights outstanding at December 31, 2016:

RIGHTS OUTSTANDING				RIGHTS EXERCISABLE	
EXERCISE PRICE	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
\$2.60	11,667	4 months	\$2.60	-	\$2.60
2.51	35,001	6 months	2.51	11,667	2.51
3.14	23,333	11 months	3.14	11,667	3.14
3.30	35,000	15 months	3.30	11,667	3.30
3.34	562,500	35 months	3.34	-	3.34

During the year ended December 31, 2016, the Company recognized compensation expense of \$200,000 (2015 - \$265,000) in respect of the SARs Plan. This amount was calculated in accordance with the fair value method of

accounting. At December 31, 2016, the SARs liability included within accounts payable and accrued liabilities was \$57,000 (2015 - \$202,000). The fair value of SARs was estimated using the Black-Scholes pricing model with the following assumptions:

	2016	2015
Risk free interest rate	1.06%	0.63%
Expected dividend yield	2.29%	2.48%
Expected lives of rights	4 to 35 months	11 to 27 months
Expected volatility	17% - 20%	14% - 20%

Risk free interest rate is the Government of Canada long-term bond rate. Expected dividend yield assumes a continuation of the most recent dividend payment for the quarterly dividends. Expected lives of rights is based on historical experience of rights being exercised. Expected volatility is based on the historical share price volatility over the past 4 months to 35 months.

### 13. General and administration expenses:

General and administration expenses consist of the following:

	2016	2015
Salaries, wages and benefits	\$3,884	\$3,069
Professional and regulatory fees	488	345
Office	342	310
Stock appreciation rights	200	265
Travel	175	229
Other	105	86
	<b>\$5,194</b>	<b>\$4,304</b>

### 14. Commitments and contingencies:

- (a) At December 31, 2016, the Company has lease agreements with third parties under the terms of which the Company leases and operates certain ice rink and recreational facilities. During the lease terms, the Company does not assume substantially all the risks and rewards of ownership. Accordingly, the lease agreements have been accounted for as operating leases. The total minimum lease payments are as follows:

Not later than one year	\$1,168
Later than one year and not later than five years	4,098
Later than five years	8,121

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

Terms of facility operating leases are as follows:

- (i) A two-pad rink facility in British Columbia with a lease term that ends on December 31, 2024.
- (ii) A two-pad rink facility in Ontario with a lease term that ends on January 31, 2020.
- (iii) On August 1, 2006, the Company purchased a six-pad rink facility in Ontario. Upon purchase, the Company assumed a forty-nine year land lease agreement related to the land on which the facility is situated. The land lease agreement is with a third party and ends on October 30, 2044.

- (iv) A multi-sport facility in Ontario with a lease term that began on April 1, 2012 and will end on October 15, 2023 with two five-year renewal options.

- (b) Due to the nature of the sports and recreation business, various lawsuits involving the Company are pending. The financial impact of these lawsuits is not determinable, but management believes, based on legal counsels' opinions, that the outcome will not materially affect the Company's financial position.

- (c) At December 31, 2016, the Company has letters of guarantee outstanding with various vendors in the amount of \$1,105,000 (2015 - \$1,005,000).

### 15. Income taxes:

- (a) The major factors which caused variations from the Company's expected combined Canadian and U.S. income tax rate of 32% for 2016 (2015 - 32%) were as follows:

	2016	2015
Statutory rate applied to earnings before income taxes	\$328	\$(1,169)
Change in deferred tax assets not recognized	(648)	1,732
Foreign currency translation differences	109	(801)
Substantively enacted tax rate change	25	(106)
Permanent differences and other	(91)	341
Income tax recovery	\$(277)	\$(3)

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

	2016	2015
<b>Deferred income tax assets:</b>		
Unused tax losses	\$383	\$78
Deferred revenue	120	127
Properties	579	1,117
Financing fees	488	-
Other	198	275
	<b>1,768</b>	<b>1,597</b>
<b>Deferred income tax liability:</b>		
Properties	(888)	(629)
Financing fees	-	(18)
Other	(10)	(10)
	<b>(898)</b>	<b>(657)</b>
Net deferred income tax assets	<b>\$870</b>	<b>\$940</b>

The following deferred tax assets have not been recognized as at December 31, 2016 and December 31, 2015:

	2016	2015
U.S. tax losses set to expire between 2018 and 2036	\$4,122	\$4,910
Tax losses that do not expire	-	15
Deductible temporary differences	61	61
	<b>\$4,183</b>	<b>\$4,986</b>

## 16. Financial instruments:

### (a) Fair value:

The Company has the following financial instruments: cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, debt and financial asset held for trading. The carrying values of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities are considered by management to approximate their fair values due to their short-term nature.

In June 2016, the Company entered into an interest rate swap agreement to fix the interest rate on a portion of its debt (note 10). The fair value of this derivative instrument at December 31,

2016 was \$259,000 and has been presented as financial asset held for trading on the statement of financial position. Changes in fair value of the instrument are recognized in net earnings. For the year ended December 31, 2016, a gain of \$259,000 was recognized. The interest rate swap is classified as Level 2 in the fair value hierarchy.

Debt is categorized as Level 2 within the fair value hierarchy. The fair values of debt included in the statement of financial position is as follows:

	2016		2015	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Debt	\$55,593	\$54,705	\$53,152	\$53,732



**(b) Financial risk management:****(i) Interest rate risk:**

The terms of the Company's outstanding debt are described in note 10. 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 \$185,000 (2015 - \$259,000) per annum.

**(ii) Liquidity risk:**

Liquidity risk is the risk from the Company's potential inability to meet its financial obligations. The Company constantly monitors its cash flows and operations to ensure current and long-term obligations can be met. The Company's capital resources are comprised of cash and cash equivalents and cash flow from operating activities. Due to the seasonality of the business, the Company finances a portion of its assets through customer deposits received in advance of the services being provided. At December 31, 2016, the Company has a working capital deficiency of \$5,886,000 (2015 - \$11,056,000).

During the off-peak season, the Company has an available demand revolving operating loan to provide working capital, if necessary (note 10). At December 31, 2016, the liquidity risk of the Company has improved as a result of the Company refinancing a significant portion of the Company debt over terms extending to 2023.

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	2017	2018	2019	2020	2021	THEREAFTER	TOTAL
Accounts payable and accrued liabilities	\$9,455	\$ -	\$ -	\$ -	\$ -	\$ -	\$9,455
Long-term debt:							
Mortgage principal and interest	5,550	5,013	9,188	6,134	4,148	35,096	65,129
Equipment leases, including interest	1,215	998	795	526	263	10	3,807
	6,765	6,011	9,983	6,660	4,411	35,106	68,936
Land and building operating leases	1,168	1,183	1,183	880	852	8,121	13,387
	\$17,388	\$7,194	\$11,166	\$7,540	\$5,263	\$43,227	\$91,778

**(iii) Credit risk:**

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable. Effective monitoring of accounts receivable is a core control procedure of the Company and appropriate provisions are recorded for impaired accounts. Historically, the Company has not experienced significant losses related to trade accounts receivable from individual customers. The Company does not face any material concentrations of credit risk. The Company's credit risk on cash and cash equivalents is limited as it maintains its holdings with large highly rated financial institutions.

**(iv) Currency risk:**

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currency of the Company, the Canadian dollar. The currency in which these transactions primarily are denominated in is the U.S. dollar. At December 31, 2016, the Company has US\$6,128,000 debt repayable in U.S. currency (note 10). The Company is exposed to the risk of loss depending on the relative movement of this currency against the Canadian dollar. The Company does not currently enter into forward contracts to mitigate this risk. As at December 31, 2016, if the Canadian dollar had strengthened or weakened by 5% in relation to the U.S. dollar, with all other factors remaining constant, the debt repayable, as reported in Canadian currency, could have decreased or increased by approximately \$411,000 (2015 - \$855,000), respectively.

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

The Company executes a planning and budgeting process to determine the funds required to ensure the Company has appropriate liquidity to meet its operating and growth objectives. The Company ensures that there are sufficient credit facilities to meet its current and future business requirements, taking into account its anticipated cash flows from operations and its holding of cash and cash equivalents. The Company is required to comply with covenant criteria established by its lenders. These include tangible net worth and debt coverage ratio measurements. As at December 31, 2016 and 2015, 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, 2016 and 2015.

## 18. Related party transactions:

- (a) During the year ended December 31, 2016, the Company expensed \$190,000 (2015 - \$140,000) in directors' fees.
- (b) The Company's majority shareholder is Bartrac Investments Ltd. ("Bartrac"). Two of the Company's Directors are also Directors of Bartrac. During the year ended December 31, 2016 and 2015, 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:

	2016	2015
Short-term employee benefits	\$1,805	\$1,695
Stock appreciation rights	200	265
Post employment benefits	66	72
	<u>\$2,071</u>	<u>\$2,032</u>

- (d) Directors and executive officers participate in the Company's stock appreciation rights program (note 12). During the year ended December 31, 2016, the Company paid \$344,000 (2015 - \$227,000) related to stock appreciation rights exercised.

## 19. 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:

	2016	2015
Ice and field sales	\$62,831	\$60,007
Food and beverage	12,080	11,684
Sports store	1,940	2,012
Tournament operations	2,690	2,452
Sponsorship	1,242	1,243
Space rental	1,150	1,007
Management and consulting fees	466	402
Other	680	642
	<u>\$83,079</u>	<u>\$79,449</u>

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

(b) Geographic:

	2016			2015		
	CANADA	USA	TOTAL	CANADA	USA	TOTAL
Revenue	\$72,784	\$10,295	\$83,079	\$70,921	\$8,528	\$79,449
Non-current assets	83,894	20,679	104,573	84,537	21,644	106,181
Total assets	102,486	23,073	125,559	96,312	24,292	120,604

## 20. Supplemental cash flow information:

	2016	2015
(a) Net changes in non-cash working capital:		
Accounts receivable	\$(111)	\$455
Inventory	3	(104)
Prepaid expenses	74	(159)
Accounts payable and accrued liabilities	1,517	587
Deferred revenue and customer deposits	116	1,186
Effect of change in foreign currency	68	(340)
	\$1,667	\$1,625
(b) Non-cash transactions:		
Finance lease obligations	\$1,830	\$1,597

## 21. 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:

	2016	2015
Ice rink and recreational facilities expense	\$72,587	\$74,636
General and administrative expenses	\$5,341	\$4,461
Other expenses (income)	\$(495)	\$1,069

The changes in the above table, as compared to the consolidated statement of earnings and comprehensive income, relate to depreciation of \$7,017,000 (2015 - \$6,954,000) being allocated from other expenses to ice rink and recreational facilities in the amount of \$6,870,000 (2015 - \$6,797,000), and to general and administrative expenses in the amount of \$147,000 (2015 - \$157,000). In 2015, an impairment loss of \$4,070,000 was being allocated from other expenses to ice rink and recreational facilities.

## FIVE YEAR REVIEW

### Statements of Financial Position

IN THOUSANDS, EXCEPT STATISTICS	2016	2015	2014	2013	2012
<b>Assets:</b>					
Property, plant and equipment - facilities	\$101,934	\$103,631	\$97,682	\$89,401	\$84,384
Other	21,857	15,376	19,032	14,926	17,358
Deferred tax assets	1,768	1,597	1,308	1,234	1,082
	<b>\$125,559</b>	<b>\$120,604</b>	<b>\$118,022</b>	<b>\$105,561</b>	<b>\$102,824</b>
<b>Liabilities:</b>					
Debt	\$55,593	\$53,152	\$51,771	\$39,774	\$37,832
Other	25,503	23,067	20,495	20,054	19,486
Deferred tax liabilities	898	657	971	777	579
	<b>\$81,994</b>	<b>\$76,876</b>	<b>\$73,237</b>	<b>\$60,605</b>	<b>\$57,897</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	3,222	3,612	-	-	-
Deficit	(23,309)	(23,536)	(18,867)	(18,696)	(18,725)
	<b>\$43,565</b>	<b>\$43,728</b>	<b>\$44,785</b>	<b>\$44,956</b>	<b>\$44,927</b>
<b>Statistics:</b>					
Debt to equity ratio	1.35:1	1.28:1	1.20:1	0.92:1	0.87:1
Share price range	\$3.15-4.00	\$3.06-3.75	\$2.30-3.34	\$2.08-3.19	\$1.70-3.46

### Statements of Earnings and Comprehensive Income

IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS	2016	2015	2014	2013	2012
Facility revenue	\$83,079	\$79,449	\$75,732	\$72,791	\$72,823
Facility operating expenses	65,717	63,769	60,089	58,769	57,912
General and administrative	5,194	4,304	4,559	4,234	5,154
	<b>70,911</b>	<b>68,073</b>	<b>64,648</b>	<b>63,003</b>	<b>63,066</b>
<b>Earnings before interest, taxes, depreciation and amortization</b>	<b>12,168</b>	<b>11,376</b>	<b>11,084</b>	<b>9,788</b>	<b>9,757</b>
<b>Other expenses (gains):</b>					
Depreciation	7,017	6,954	6,132	5,633	5,112
Net finance cost	2,311	2,888	2,532	2,371	2,381
Fee on settlement of debt	2,318	-	-	-	-
Impairment loss	-	4,070	-	-	-
Other	(495)	1,069	619	95	(23)
Income tax expense (recovery)	(277)	(3)	905	593	992
	<b>10,874</b>	<b>14,978</b>	<b>10,188</b>	<b>8,692</b>	<b>8,462</b>
<b>Net earnings (loss)</b>	<b>\$1,294</b>	<b>\$(3,602)</b>	<b>\$896</b>	<b>\$1,096</b>	<b>\$1,295</b>
Other comprehensive income (loss) related to foreign currency translation differences	(390)	3,612	-	-	-
<b>Total comprehensive income</b>	<b>\$904</b>	<b>\$10</b>	<b>\$896</b>	<b>\$1,096</b>	<b>\$1,295</b>
<b>Earnings (loss) per common share</b>	<b>\$0.10</b>	<b>\$(0.27)</b>	<b>\$0.07</b>	<b>\$0.08</b>	<b>\$0.10</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,  
Canlan Ice Sports Corp.  
Oakville, ON

**Frank D. Barker**

Partner,  
Kinetic Capital Partners  
Vancouver, BC

**Geoffrey J. Barker**

Vice-President,  
Properties & Development  
Bartrac Holdings Ltd.  
Surrey, BC

**Charles Allen**

Oshawa, ON

**William G. Bullis**

Surrey, BC

**Victor D'Souza**

Managing Director,  
Reignite Capital  
Toronto, ON

**Doug Brownridge**

Chairman,  
Aprio Software  
West Vancouver, BC

**Joey St-Aubin**

President & CEO,  
Canlan Ice Sports Corp.  
Courtice, ON

---

## Officers

**W. Grant Ballantyne**

Chairman

**Joey St-Aubin**

President & CEO

**Michael F. Gellard**

Senior Vice-President & CFO

**Mark Faubert**

Senior Vice-President & COO

**Ken Male**

Vice-President  
Partnership Solutions

**Paul Dillon**

Vice-President  
Sales, Marketing & Service

**Greg Porcellato**

Vice-President  
Western Operations

**Mark E. Reynolds**

Vice-President  
Human Resources  
& Chief Privacy Officer

**Ivan C. Wu**

Vice-President  
Finance

---

## Corporate Offices

**Vancouver**

6501 Sprott Street,  
Burnaby, BC V5H 3B8  
T: 604.736.9152  
F: 604.736.9170

**Toronto**

989 Murray Ross Parkway  
(on the campus of York University),  
North York, ON M3J 3M4  
T: 416.661.4423  
F: 416.661.4422

**Shares Listed**

Toronto Stock Exchange, Symbol ICE

**Corporate Website**

[www.icesports.com](http://www.icesports.com)

---

**Solicitors & Registered Office**

Edwards, Kenny & Bray LLP  
19th Floor, 1040 West Georgia Street,  
Vancouver, BC V6E 4H3

**Auditors**

KPMG LLP  
777 Dunsmuir Street,  
Vancouver, BC V7Y 1K3

**Registrar & Transfer Agent**

Computershare Investor Services  
8th Floor, 151 Front Street, Toronto, ON M5J 2N1  
and 510 Burrard Street, Vancouver, BC V6C 3B9



## CORPORATE OFFICES

### VANCOUVER

6501 Sprott Street  
Burnaby, British Columbia  
V5B 3B8

---

### TORONTO

989 Murray Ross Parkway  
North York, Ontario  
M3J 3M4

