Lukas Walter et al

v

Western Hockey League et al

Certification of the Matter as a Class Action

February 1, 2017

SMITH FORENSICS INC.

Forensic Accounting and Neutral Services

SMITH FORENSICS INC.

Forensic Accounting and Neutral Services

PRIVILEGED AND CONFIDENTIAL

Sent By Email

February 1, 2017

Mr. Theodore Charney
Charney Lawyers
151 Bloor Street West
Suite 602
Toronto, Ontario
M5S 1S4

Dear Mr. Charney:

Re: Lukas Walter et al v Western Hockey League et al

Pursuant to your request, we have prepared our report relating to the certification of the above matter as a class action. We are aware of the ongoing litigation with respect to this matter and understand that this report may ultimately be used at a hearing.

This report is not intended for general circulation or publication, nor is it to be reproduced for any purpose other than as outlined above, without prior written consent, which consent will not be unreasonably withheld.

Yours very truly,
SMITH FORENSICS INC.

Ronald T. Smith, CPA, CA•IFA, CFF CIP
WHL CLASS ACTION-THEODORE P. CHARNEY-02/01/2017R

Section A
Introduction

This report includes the following sections:

A. Introduction.
B. Reporting standard.
C. Report date and effective date of findings.
D. Basis and purpose of report.
E. Scope of review.
F. Scope limitations.
G. Terminology.
H. Approach.
I. Conclusions and major findings and comments – KPMG methodology.
J. Conclusions and major findings and comments – Financial impact on the 22 teams of paying the players a minimum wage and our other observations.
K. Report distribution restrictions.
L. Other matters.
M. Statement of qualifications of Ronald T. Smith.

Section B
Reporting standard

Please note that this report is prepared pursuant to the "Standard Practices for Investigative and Forensic Accounting Engagements", as published by the Chartered Accountants of Canada, now Chartered Professional Accountants of Canada.

Section C
Report date and effective date of findings

This reporting letter is dated February 1, 2017.

Findings are as of February 1, 2017.

Section D
Basis and purpose of report

We were retained to undertake an independent review of the December 22, 2016 report prepared by KPMG LLP, entitled: "Western Hockey League Summary of Financial Information" (the KPMG report).

We were asked specifically to:

1. Determine if the methodology used by KPMG was appropriate in determining the financial performance of the 22 WHL teams and the WHL.
2. Determine if there was sufficient information and documentation to determine the financial impact on the 22 WHL teams of paying the players a minimum wage.
3. Provide any additional observations.

Section E
Scope of review

For this report, we primarily relied upon and/or reviewed the documentation listed in Appendix A to this report.

Section F
Scope limitations

Our scope was limited as a number of financial statements and income tax returns have not been produced, which were to be produced pursuant to the Decision of October 28, 2016 of Justice R.J. Hall.

Our scope was limited in part as we did not have the profit & loss statement for the Seattle Thunderbirds for fiscal 2012. KPMG referred to this statement in their report.

Section G
Terminology

The following terminology is used within this report:

1. Internally prepared financial statements

   Financial statements that are prepared internally by the reporting entity.

2. Externally prepared financial statements

   Financial statements that are typically prepared by an independent external accounting firm.

3. Audit, Review Engagement, Notice to Reader

   These are the three main types of reporting standards for accountants who prepare financial statements.

   Audited Financial Statements – Have the highest standards placed on accountants and the work performed is typically much more in-depth than any other reporting standard (see Appendix C for a typical wording of an "Independent Auditors' Report").

   Review Engagement Financial Statements – Are based primarily on enquiry, analytical procedures and discussions with representatives on the entity (see Appendix D for a typical wording of a "Review Engagement Report").

   Notice to Reader Financial Statements – Have the most minimal standards placed on accountants and are typically prepared based on information provided by the client (see Appendix E for a typical wording of a "Notice to Reader").

4. Notes to financial statements

   The notes to financial statements provide details that are not found on a balance sheet or income statement as well as various other statements or schedules to the financial statement. For audits and review engagements, the notes could include: the significant accounting policies, the details as to what items comprise a specific item, the basis of how the item was calculated and any additional information that the reader of the financial statements should be aware of when relying upon them (see Appendix F for notes from a "Review Engagement Financial Statements").

5. Intangible assets

   Are assets that are not physical (tangible) in nature. They would include goodwill, trademarks and franchise costs. Tangible assets would include fixed assets – equipment, buildings and furniture and fixtures, cash and accounts receivables. Intangible assets can have a limited life and be amortized over that period of time or they can have an unlimited life and only be written-down when they are impaired.

6. Impairment testing of intangible assets

   Impairment testing is performed in order to determine if the value of the intangible asset is less than the amount it is carried at on the balance sheet. If the value is less than the amount on the balance sheet, there will be an amortization charge to the income statement to reflect the amount of the impairment. The impairment testing should occur annually or more frequently, if events or changes in circumstances indicate that the asset might be impaired.

7. Normalized earnings

   In this instance, normalized earnings are defined as earnings that have been adjusted to remove the effects of revenue and expenses that are unusual or one-time influences. Normalized earnings help business owners, financial analysts and other stakeholders understand a company's true earnings from its normal operations.

Section H
Approach

Our approach to this assignment is set out below:

KPMG methodology

For this section of the report, our approach consisted primarily of the following:

i. Reviewed the KPMG report to determine the basis on which it was prepared.
ii. Reviewed the supporting documents that KPMG used to prepare their report, which for the most part consisted of financial statements and the income tax returns for one of the teams.
iii. Identified anomalies within the financial statements, income schedules and/or income tax returns.

Financial impact on the 22 WHL teams of paying the players a minimum wage and other observations

In addition to the procedures referred to above, our approach primarily consisted of the following:

i. Reviewed the completeness of the information that was contained in the financial statements and income tax returns that was available and/or relied upon by KPMG.
ii. Reviewed data related to the sale of WHL and the Ontario Hockey League (OHL) teams, which were primarily from financial statements.
iii. Reviewed information relating to impairment testing of intangible assets, from the financial statements of the teams.
iv. Reviewed income tax returns to identify the 50% add-backs of non-deductible meals and entertainment expenses (for income tax purposes).

Section I
Conclusions and major findings and comments

KPMG methodology

Based upon our review and/or analysis of the KPMG report and the documentation that has been produced in this matter (as noted in our scope section), we make the following conclusions, major findings and comments.

The KPMG report states at page 1, last paragraph, their retainer and the purpose of it, see below:

> KPMG Forensic Inc. ("KPMG") has been retained by Torys LLP on behalf of the Defendants, to provide a summary of the income statements of the WHL and the Teams on an individual and combined basis for the five-year period from 2012 to 2016 (the "Period").[1] Given the potential for annual variations in the results of the Teams, a five-year period was chosen to provide a more comprehensive view of the Teams, while taking into consideration the ability to obtain summary financial information. The purpose of this analysis is to provide a view of the Defendants' overall financial performance.

We are not sure what a "view" means, but based upon the work performed, it appears to be little more than using "snapshots" of the teams' income information and adding them up.

The KPMG report would not be classified as a "true" forensic accounting report, nor did the author portray it as such.

As the central issue is what the financial impact on the teams would be of paying players minimum wage, we would have expected the assignment to be (amongst other procedures) to determine what the normalized earnings were of the teams.

It appears that the skill-set of KPMG was greatly under-utilized due to the inherent limitations associated with the assignment that they were asked to complete.

Some of the typical procedures for this type of assignment that would have been employed by a forensic accountant would include:

1. Assess the degree of reliability that could be placed on the financial statements – were they internally or externally prepared, and, if externally prepared, were they audited, a review engagement or a notice to reader.
   - Externally prepared typically being more reliable than internally prepared.
   - Audited or review engagements being far more reliable than a notice to reader.

2. Calculate the normalized earnings of the teams, which may include:
    - Meet with management to gain an appreciation of their particular business.
    - Review the financial statements, budgets and forecasts of the teams.
    - Determine the general ledger accounts that were grouped together to form the larger items in the income statements, in order to obtain a better sense of the nature of expenses that are being incurred.
    - Examine the reasons for significant fluctuations in annual expenses.
    - Determine the expenses that could be classified as discretionary, such as donations and entertainment.
    - Determine if there were non-arm's length transactions and whether or not they were transacted at fair market values.
    - Determine if remuneration was paid that was not at fair market value.
    - Determine if any expenses such as management fees were paid at their economic value or if they were paid as a "distribution of profits".
    - Determine if non-cash items such as depreciation and amortization approximate the economic value of the deprecation of those assets.
    - Determine if the owners of the team realize any personal benefits that were paid for by the teams.

After reviewing the financial records which have been made available to us, we were unable to carry out the usual procedures that we would employ, as described above, because we do not have access to the teams and because there is not enough information. Some of the teams prepared their own financial statements internally, without proper notes and/or expense account details, while other teams provided notice to reader financial statements that lack notes and/or expense account details, and some teams did not provide any financial statements, only summary income statements with virtually no notes provided. In one case, no financial statements were prepared.

For some of the other teams where sufficient information was provided, various questions were raised regarding some significant amounts, which are noted in the sections below.

We have been able to identify a number of issues which, in our opinion, demonstrate that basically just taking the teams' reported revenues and expenses over a five-year period at face value does not provide a reasonable basis to determine what the impact would be on the teams if they had to pay the players minimum wage.

The issues identified, include:

1. There were non-cash expenses, specifically amortization and depreciation, that are at times very significant and may not represent the economic value for amortization and/or depreciation. See Tab 23 for the summary of the annual amounts of amortization and depreciation for the teams with significant overall amortization and depreciation during the period under review.
   - It should be noted that the amortization expenses claimed by the Tri-City Americans, which appear to relate to intangible assets, should be added back to income for the purpose of this analysis (see Tab 1, point 3). The amortization totals approximately US$964,000.
2. KPMG included a “stub-period” loss of approximately US$397,000 in their calculations for the Everett Silvertips, which appears to overstate the team’s losses for the purpose of this analysis (see Tab 11, point 5).
3. There were significant expenses relating to management fees and remuneration for employees/directors, that are at times very significant and may not represent full economic value to the team (see Tab 24).
4. There were expenses that at times were very significant and some of these expenses possibly should have been capitalized and then amortized, inventoried or were “discretionary” (see Tab 25).
5. There are significant add-back for income tax purposes for five teams for the 50% non-deductible portion of “meals and entertainment”, which may indicate that some expenses were discretionary in nature (see Tab 26). To the extent that we do not have complete income tax returns, our analysis would be impacted if those teams had significant add-backs.
6. The Edmonton Oil Kings reported significant concert and event revenue in three of the five fiscal years under review, averaging approximately $1,125,000 annually. KPMG has excluded these amounts from their compilation of the figures but did not state the reason for doing so. It may be that these amounts should be treated as per the KPMG report, but we require the details of the contractual relationship that the team has regarding concerts and events in order to assist in making that determination (see Tab 8, points 5 and 6).
7. The Kelowna Rockets has a wholly-owned subsidiary that provides the team with bussing services. We do not know if the subsidiary is profitable or not (see Tab 19).
8. There appears to be a difference for the Seattle Thunderbirds of approximately US$937,000 between the total “pre-tax income” income per the income tax returns (calendar years 2012 to 2015) and the financial statements (fiscal years end May 2013 to 2016. **The discrepancy may only be due to the differences in the reporting periods**, but, due to the amount of the difference, it requires an explanation (see Tab 15-1, point 10).

Our detailed findings and comments for each team are found at Tabs 1 to 22 of this report.

Section J
Conclusions and major findings and comments

Financial impact on the 22 teams of paying the players a minimum wage And our other observations

Based upon our review and/or analysis of the KPMG report and the documentation that has been produced in this matter (as noted in our scope section), we make the following conclusions, major findings and comments.

It is not possible to properly determine what the impact on the teams individually or as a whole would be if they had to pay the players minimum wage, the main reasons being:

1. There is not enough information to determine the normalized earnings for any of the teams.
2. There is not enough information to determine if the teams could reduce their expenses in certain areas.
3. There is not enough information to determine if the teams could increase their revenues through “booster clubs” and other fundraising ventures.

<u>Purchase of WHL and OHL Teams</u>

Teams were sold for substantial amounts, notwithstanding that the teams earned small profits or incurred small to large losses for the most part.

Based upon the information with which we were provided, there were five sales of WHL or OHL teams during the period under review. The four Canadian teams (2 OHL and 2 WHL) were purchased in the buyers’ 2015 fiscal year. The amounts that appear to have been paid for intangible assets, primarily consisting of goodwill, ranged from approximately $6.4 million to $10.3 million. Based upon the available information, the selling teams mainly incurred losses prior to the year of sale.

The American OHL team was purchased in the buyer’s 2016 fiscal year. The amount paid for intangible assets consisting of franchise fee, was approximately US$8.4 million. Based upon the limited available information, the selling team incurred a loss of approximately US($150,000) in its 2014 fiscal year.

It does not appear that the financial value of the teams is primarily based upon their profit or losses, due to the substantial amounts for which they are sold and their poor “profit” performance.

See Tab 27 for details.

Impairment of Intangible Assets

The intangible assets typically included goodwill and franchise costs and were likely recorded on the purchaser's balance sheet when they purchased the assets of a WHL team. Notwithstanding that certain teams had significant losses after the team was purchased, there was no impairment (write-down) to the value of their intangible assets (see Tab 28).

Average earnings of Teams

The following is from page 6 of the KPMG report:

- Over the Period, 11 teams had an average annual net loss and 11 teams had an average annual net income.
- The average net income/loss each year ranged from a net loss of approximately $91,000 to a net income of $61,000.
- Team 8 is the most profitable team and after excluding this Team from the analysis, the other Teams have an average annual loss of between $3,500 and $146,000 over the five years.

Our Comments

We are not sure why KPMG chose to only eliminate the highest average earning team and not to eliminate the team with the greatest losses as well.

Team 8 had an average annual pre-tax income of approximately $1,815,000 (5 years of data). The next highest earner was Team 15 with average annual pre-tax profits of approximately $510,000 (5 years of data).

Team 18 had an average annual pre-tax loss of approximately $1,570,000 (4 years of data). Team 10 had the next highest average annual pre-tax loss of approximately $795,000 (5 years of data).

Extraordinary Revenue

The following is from page 8 of the KPMG report:

> As the funds are paid by the WHL to the Teams, we obtained from the WHL the Extraordinary Revenue paid to the Teams in each year. The following relate to our review of Extraordinary Revenue:
>
> - The totals are summarized in Section B of Schedule 1. Between 2012 and 2015, the WHL annually paid between $nil and $3,276,000 to the Teams.
> - On average, the WHL paid $1,702,000 annually to the Teams.
> - The amounts paid to each team in each year according to the records of the WHL are shown in Section B of Schedules 3 to 7. Without these funds paid to the Teams by the WHL, the Teams' pre-tax income would decrease in the years when payments are made and some teams that recorded a net income would be in a loss position[3].

We are not sure why KPMG makes the comment in their last bullet point, "……Without these funds….. the Teams' pre-tax income would decrease." It is our understanding that these revenues are shared with the teams in the WHL and are not discretionary on the part of the WHL.

We do not believe that it is appropriate to categorize the revenue as "extraordinary" based upon the following definition of "extraordinary item" from the Terminology For Accountants, third edition 1983, The Canadian Institute of Chartered Accountants (now known as the Chartered Professional Accountants Canada).

> **extraordinary item**
> A gain, loss or provision for loss which results from an occurrence the underlying nature of which is not typical of the normal business activities of the enterprise, is not expected to occur regularly over a period of years, and is not considered as a recurring factor in any evaluation of the ordinary operations of the business.

The revenues paid to the WHL teams by the WHL are both a) part of the normal business activities of the teams and b) recurring.

Combined Income Statements

The following is from page 6 of the KPMG report:

4 Combined Income Statements

In Schedule 1, we provide the combined net income or loss before income tax for the Teams in the WHL for the five years in the Period (2012 to 2016), as summarized below:

Table 1
Summary of WHL Teams Income Statements

Line Item	2012	2013	2014	2015	2016	5 Year Total	Annual Average
Section A							
Revenues	66,830,714	76,615,414	74,829,382	80,219,872	77,223,125	375,718,507	75,143,701

Our Comments

The above is misleading and most likely unintentionally so, as it does not include revenue for two of the teams in 2016 (data was not yet available for the entire year) and therefore gives an initial impression that the overall revenue of the teams may be in decline or just fluctuating.

Had the 2016 revenue of the two teams been assumed to equal 2015 levels, for illustration purposes, the total revenue would have approximated $87,830,000.

Using a similar methodology as above, the 2016 revenue of the OHL would have approximated $63,670,000 (as opposed to $44,603,000).

Had the assignment not just been that of a compilation, the actual year-to-date information could have been obtained from the teams and an estimate made of the likely revenue from that date to the end of each team's December 31, 2016, reporting years.

As well, for the 2012 analysis, KPMG included revenue for the Everett Silvertips of approximately $52,000 (stub-period; see Tab 11, note 5) when calculating the total revenues, thereby understating the total annual revenues of the league. The Everett Silvertips had annual revenues of approximately $4,678,000 on average in its 2013 to 2016 fiscal years.

Fundraising

We are not sure of the extent to which each team has a separate fundraising "arm", but there are two significant examples that we noted.

1. The Saskatoon Blades scholarship obligations are funded through a non-profit entity that holds raffles and other fundraising events. The following is from note 10 to the June 30, 2016 financials statements of the team.

> **10. Contingent liability:**
>
> In accordance with the requirements of the WHL, the Company signs a contract with each of its hockey players assuming liability for expenses for academic courses including applicable tuition, general fees and books for the player to attend a local university, college or technical school as a "full time" student. The liability is for one year of education for each year played for the Saskatoon Blades in the WHL. This potential liability is nullified if a player signs a professional contract or does not attend a post secondary institution within one year of leaving the WHL. At June 30, 2016, using management's best estimates of tuition rates and book prices, the maximum future liability for player performance to date is approximately $825,654 (2015 - $811,244). A non-profit entity, the Saskatoon Blades Educational Scholarship Fund Inc., was incorporated to hold raffles and other fundraising initiatives to pay for the on-going expenses of funding education for past and present hockey players of the Saskatoon Blades Hockey Club. At June 30, 2016, assets of $790,558 (2015 - $824,471) were held in this fund. This activity is not reflected in the financial statements of the Saskatoon Blades Hockey Club Ltd.

2. The Moose Jaw Warriors have a booster club that provides it with substantial support. The team shows the following revenue from the booster club for its fiscal years ended May 31:

Fiscal 2012	$212,274
Fiscal 2013	$398,225
Fiscal 2014	$205,310
Fiscal 2015	$320,600
Fiscal 2016	$290,223

The following is from note 10 to the May 31, 2016 financial statements of the team.

> 10. ECONOMIC DEPENDENCE
>
> The company receives significant funding from the Moose Jaw Warriors Booster Club. A directive requires that the club will be distributing the funds available in the next fiscal year.

Central Scholarship

The following is from the fiscal 2016 financial statements of the WHL.

10. Central scholarship registry administration:

In fiscal 2008, the League administered the Scholarship Central Registry Administration program. Under this program, the League makes payments to recognized colleges and universities on a player's behalf for education costs. Subsequently, the member clubs are invoiced by the League for payments made on behalf of the member club's players.

In addition to administering the program, the League has made a commitment to cover the education costs for all players who have signed the League's Standard Player Agreement in cases where a league member club is unable to fulfill their obligations under the agreement. The League estimates that the total value of the guarantees are approximately $20 million (2015 – $18.5 million). Due to a history of compliance with the agreements by the member clubs and the current financial position of the clubs, the League has not accrued any provision for this commitment in its financial statements.

It appears that the WHL is confident in the teams being able to fund their on-going obligations.

Our detailed findings and comments for each team are found at Tabs 1 to 22 of this report.

Section K
Report distribution restrictions

See transmittal letter.

Section L
Other matters

Please be advised that:

i. The compensation for this report is based on an agreed fee plus disbursements at cost. The compensation is not dependent on the findings.

ii. This report is based on our findings as at February 1, 2017. We reserve the right to revise and reissue this report should additional information come to light that materially affects our findings.

Section M
Statement of qualifications

The statement of qualifications of Ronald T. Smith is found at Appendix B.

TAB 1

TRI-CITY AMERICANS
(All funds in US dollars)

Findings and Comments

1. It appears that the financial statements for fiscal 2012 to 2016 were prepared internally and that they are only printouts from an accounting software package. There are no detailed notes explaining the basis on which the financial statements were prepared.
2. The following amounts were claimed as amortization expenses:

Fiscal 2012	$193,507
Fiscal 2013	$193,033
Fiscal 2014	$112,259
Fiscal 2015	$192,445
Fiscal 2016	$272,631

   The amortization appears to relate to the "Franchise Agreement" of $2,886,681.00 and "Start Up Costs" of $180,298.62 which appear on the team's Balance Sheet.
3. These amounts should not form a deduction from income for the purpose of determining the impact on the team's financial ability to fund the "minimum wage" amounts.

   The reason being that the actual expenditures took place prior to years fiscal 2012 and these assets are not items that need to be replaced, as would be the case if they were machinery and equipment.
4. The income tax returns also show at line item # 12, Compensation of officers, which were:

Calendar 2012	$159,000
Calendar 2013	$154,958
Calendar 2014	$161,195
Calendar 2015	$170,740

We do not know whether or not the team received economic value for this remuneration.

TAB 2

LETHBRIDGE HURRICANES

Findings and Comments

Nothing to note.

TAB 3

CALGARY HITMEN

Findings and Comments

1. We were not provided with any financial statements.
2. We were not provided with any income tax returns.
3. We were only provided with a one-page schedule showing “Total Net Income” for the fiscal years ended in 2012 to 2016. The date of the fiscal year end of the operations is not noted in the schedule.
4. We do not know the basis on which the income statements were prepared as there are no notes to them.
5. The following amounts were claimed as “Other professional fees”:

Fiscal 2012	$103,765
Fiscal 2013	$104,054
Fiscal 2014	$154,332
Fiscal 2015	$164,885
Fiscal 2016	$187,250

   We do not know what these fees relate to and whether or not the team received economic value for these fees.

TAB 4

SPOKANE CHIEFS
(All funds in US dollars)

Findings and Comments

1. The financial statements for the fiscal years ended May 31, 2012 to May 31, 2016 appear to have been prepared internally as opposed to by an external accounting firm and are "For Management Purposes Only".
2. There are no notes to the financial statements.
3. We do not know the basis on which the financial statements were prepared.
4. The following amounts were claimed as management fee/bonuses expenses:

Fiscal 2012	$97,013
Fiscal 2013	$126,491
Fiscal 2014	$101,320
Fiscal 2015	$51,485
Fiscal 2016	$9,750

We do not know what portion of these above amounts relate to management fees and whether or not the team received economic value for these fees.

TAB 5

PORTLAND WINTERHAWKS
(All funds in US dollars)

Findings and Comments

1. We were not provided with any financial statements.
2. We were only provided with the first page of the income tax returns for each of the taxation years ended May 31, 2012 to 2016.
3. There are "line items" on the first page that refer to various "statements", none of which were provided to us, an example from the 2016 income tax return being:
    - Line item number 26 - Other Deductions SEE STATEMENT 3 US$1,671,881. The expenses represent almost 30% of the team's expenses. Without the additional relevant pages contained in the income tax returns, it is not possible to start to assess the financial performance of the team.

    See Appendix G for a copy of the first page of the draft income tax return for the year ended May 31, 2016.

4. The income tax returns also show at line item # 12, Compensation of officers, which were:

Fiscal 2012	$263,025
Fiscal 2013	$292,375
Fiscal 2014	$354,781
Fiscal 2015	$393,468
Fiscal 2016	$382,568

We do not know whether or not the team received economic value for the compensation of officers.

5. The income tax returns also show at line item # 20, depreciation, which were:

Fiscal 2012	$35,721
Fiscal 2013	$47,872
Fiscal 2014	$89,929
Fiscal 2015	$204,611
Fiscal 2016	$307,412

We do not know whether or not these amounts represent the true economic amount of depreciation or simply the amount that can be claimed for income tax purposes.

TAB 6

VANCOUVER GIANTS

Findings and Comments

1. The team recorded significant losses during the fiscal years ended May 31, 2012 to 2016:

Fiscal 2012	$(371,666)
Fiscal 2013	$(111,681)
Fiscal 2014	$(355,071)
Fiscal 2015	$(406,385)
Fiscal 2016	$(725,014)

2. As at May 31, 2016 the balance sheet of the team shows "Intangible assets" of $1,591,250.
3. It appears that management believes and/or has tested and satisfied themselves that the value of the intangible assets has not been impaired, notwithstanding that there have been significant losses over the years.

   The following notes are from the team's May 31, 2016, financial statements:

4. Intangible assets

The Limited Partnership's intangible assets are analyzed as follows:

	2016	*2015*
Franchise fee	**1,100,000**	1,100,000
Other	**491,250**	491,250
Total	**1,591,250**	1,591,250

The francise fee paid to Western Hockey League is considered to have an indefinite useful life because cash flows are expected to continue indefinitely.

The other intangibles represent past services rendered and expenditures in connection with obtaining the franchise for the Limited Partnership, which are expected to contribute to the Limited Partnership's cash flows indefinitey.

Note 2 – Significant Accounting Policies - Intangible assets

Intangible assets

Intangible assets with indefinite useful life are recorded at cost less any write-down for impairment. They are tested for impairment if events or changes in circumstances indicate that their carrying value might be impaired.

4. The team's external accountants did not qualify their opinion relating to the financial statements of the team (review engagement).

Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with Canadian accounting standards for private enterprises.

Vancouver, British Columbia

October 6, 2016

MNP LLP

Chartered Professional Accountants

TAB 7

SWIFT CURRENT BRONCOS

Findings and Comments

1. The hockey equipment and supplies expense was extraordinarily high in fiscal 2015 compared to other years and it is possible that some of the expenditures should have been capitalized or added to inventory:

Fiscal 2012	$79,645
Fiscal 2013	$43,416
Fiscal 2014	$48,496
Fiscal 2015	$190,392
Fiscal 2016	$77,820

TAB 8

EDMONTON OIL KINGS

Findings and Comments

1. The financial statements for the fiscal years ended June 30, 2012 to 2016 appear to have been prepared internally as opposed to by an external accounting firm.
2. The financial statements only consist of a one-page balance sheet and one-page statement of operations for each year and only contain one note in each year, except for 2015 which does not have any notes.
3. We do not know the basis on which the financial statements were prepared other than that they are non-consolidated.
4. There is a $4 million investment in the WHL that has been on the balance sheet of the team from fiscal 2012 to 2016. It therefore appears that there is no impairment to this asset.
5. The statement of operations for fiscal 2013, 2014 and 2016 contain the following note:
   - Concert and event revenue earned at Rexall Place are recorded in the Edmonton Major Junior Hockey Corporation legal entity for tax reporting purposes.

   We are unaware of the nature of the arrangement between the team and Rexall Place.
6. We are unaware of the reason why there is no concert and event revenue for fiscal 2012 and 2015. The revenue was as follows:

Fiscal 2012	NIL
Fiscal 2013	$860,938
Fiscal 2014	$1,357,503
Fiscal 2015	NIL
Fiscal 2016	$1,155,772

7. It should be noted that KPMG has not included the above revenue (profit) in their report. Pending the receipt of additional information, this may or may not be the appropriate treatment for these profits.

TAB 9

MOOSE JAW WARRIORS

Findings and Comments

1. The team plays its home games at Mosaic Place (which appears to be part of the Moose Jaw Multiplex).
2. Note 8 to the financial statements for the fiscal year ended May 31, 2016, discloses that the team has made a pledge to the Moose Jaw Multiplex in the amount of $2,500,000. $500,000 was paid in fiscal 2009 and $200,000 was paid in each of fiscal 2012 to 2016. These amounts have been charged against income (for at least fiscal 2012 to 2016). We do not know how the 2009 payment was treated.
3. Note 8 also states "….Pledges are voluntary and not enforceable, therefore not a liability. Payments will be recorded in the year they are made.".
4. The team has recorded the following profits/loss in the fiscal years ended May 31, 2012 to 2016:

Fiscal 2012	$394,646
Fiscal 2013	$343,888
Fiscal 2014	$81,491
Fiscal 2015	$2,611
Fiscal 2016	$(36,800)

5. We do not know what the impact, if any, would be on the team if it increased the period over which the pledge was payable, thereby reducing its annual expenses.

TAB 10

PRINCE GEORGE COUGARS

Findings and Comments

1. We were provided with a one-page comparative “Statement of Operations and Deficit” for the fiscal years ended June 30, 2013 and 2014. Based upon the format of the statement it appears to have been prepared by an external accountant, therefore was likely extracted from a complete set of financial statements.
2. We were provided with a three-page comparative “Balance Sheet” and “Statement of Loss and Deficit” for the three-month period and years ended June 30, 2014, 2015 and 2016 respectively.
3. These financial statements appear to have been prepared internally and do not have any notes or breakdowns of the major expenses, in particular “Team expense” of $863,675 and $922,279 in fiscal 2015 and 2016 respectively.
4. It appears that the team was sold in early 2014 (calendar year).
5. Notwithstanding that the team lost an average of approximately $711,000 per year during the fiscal years/periods ended June 30, 2012 and 2013 and March 31, 2014, the purchaser appears to have paid $6,381,133 for goodwill, based on its balance sheets.
6. The team had losses of approximately $1,057,000 and $785,000 in fiscal years ended June 30, 2015 and 2016 respectively and the goodwill is still on the balance sheet in the amount of $6,381,133.
7. It does not appear that team believes that there has been an impairment in the value of goodwill.

TAB 11

EVERETT SILVERTIPS
(All funds in US Dollars)

Findings and Comments

1. We were not provided with any financial statements.
2. We were only provided with a one-page “Income Statement” for the fiscal period and years ended August 31, 2012 to 2016 respectively.
3. There are no notes to the “Income Statement”.
4. We do not know the basis on which the income statements were prepared.
5. KPMG included the results for fiscal 2012, which was its first fiscal year that was reported. However, that fiscal year only had three months of operations, that being June to August 2012 where there was expectedly very little revenue, only $51,405 and a loss of $396,592. We believe that it is inappropriate to include this amount along with the subsequent four years results, if the objective is to show the team’s ability to pay minimum wage to its players. One alternative could have been to adjust the last fiscal year to a period of nine months, so that there would be a complete four-year period being reported.
6. It should also be noted that the “Administration Expenses” in fiscal 2013 are approximately $982,000 more than the average of those in fiscal 2014 to 2016:

Fiscal 2013	$1,433,430
Fiscal 2014	$472,379
Fiscal 2015	$438,282
Fiscal 2016	$442,871

We are not sure if the fiscal 2013 figure includes any amounts that should have been capitalized and not expensed.

The additional administration expenses of $982,000 resulted in the team incurring loss of approximately $799,000.

TAB 12

KOOTENAY ICE

Findings and Comments

1. The financial statements of the team disclose the following expenses for "Management fees and bonuses" in fiscal 2012 to 2016:

Fiscal 2012	$97,500
Fiscal 2013	NIL
Fiscal 2014	$146,573
Fiscal 2015	NIL
Fiscal 2016	NIL

2. The notes to the financial statements disclose that the amounts were paid as follows:

	Fiscal 2012	Fiscal 2014
Midwest Sports Ltd.	$73,613	$110,663
Scott and Rob Niedermayer	23,888	35,910
Total	$97,501	$146,573

The recipients are described as being related to the team. We do not know if these payments represent true economic value to the team.

3. The notes to the financial statements of the team disclose the following remuneration to directors and/or officers in their capacity as employee/directors/officers during fiscal 2012 to 2016:

Fiscal 2012	$150,000
Fiscal 2013	$150,000
Fiscal 2014	$150,000
Fiscal 2015	$150,000
Fiscal 2016	$150,000

We do not know if these payments represent true economic value to the team.

TAB 13

RED DEER REBELS

Findings and Comments

1. We were provided financial statements for the fiscal years ended May 31, 2012 to 2016. The statements are "Notice to Reader" and the notice to reader in fiscal 2016, which is similar to those of the other years, states:

> **NOTICE TO READER**
>
> On the basis of information provided by management, we have compiled the balance sheet of Rebels Sports Ltd. as at May 31, 2016 and the statement of loss and retained earnings for the year then ended.
>
> We have not performed an audit or a review engagement in respect of these financial statements and, accordingly, we express no assurance thereon.
>
> Readers are cautioned that these statements may not be appropriate for their purposes.

2. The financial statements of the team disclose the following expenses for "Management fees" for the fiscal years ended May 31, 2012 to 2016:

Fiscal 2012	$652,600
Fiscal 2013	$400,000
Fiscal 2014	$700,000
Fiscal 2015	$725,000
Fiscal 2016	$1,490,000

We do not know if these fees represent true economic value to the team.

Based upon the large increase in the fiscal 2016 management fees, it appears that a significant portion of those management fees may be a distribution of profit.

3. The financial statements of the team disclose amortization for the fiscal years ended May 31, 2012 to 2016:

Fiscal 2012	$87,420
Fiscal 2013	$169,727
Fiscal 2014	$195,883
Fiscal 2015	$177,209
Fiscal 2016	$176,359

We do not know if these levels of amortization represent the economic value of the amortization of the assets.

TAB 14

MEDICINE HAT TIGERS

Findings and Comments

1. We were provided financial statements for the fiscal years ended April 30, 2012 to 2016 (with comparative figures). The statements are “Notice to Reader” engagements.
2. The financial statements of the team disclose the following amounts for “Bonus payable” for the fiscal years ended April 30, 2011 to 2016:

Fiscal 2011	$381,000
Fiscal 2012	$410,000
Fiscal 2013	$140,000
Fiscal 2014	NIL
Fiscal 2015	NIL
Fiscal 2016	NIL

   The bonuses are not disclosed separately in the “Statement of Operations” and therefore may not represent the expense for that year in whole or in part. It should be noted that bonuses are typically accrued at year-end and are payable within six months of the year-end.

   We do not know who received the bonuses or what the basis of the bonuses was or if the bonuses represent economic value for the team.

3. The financial statements of the team disclose the following expenses for “Repairs and maintenance” for the fiscal years ended April 30, 2011 to 2016:

Fiscal 2011	$1,461
Fiscal 2012	$5,306
Fiscal 2013	$3,323
Fiscal 2014	$110,021
Fiscal 2015	$3,427
Fiscal 2016	$17,315

   We do not know if the large increase in fiscal 2014 was a result of expensing items that should have been capitalized.

TAB 14-1

MEDICINE HAT TIGERS

4. The financial statements of the team disclose the following expenses for "Equipment and supplies" for the fiscal years ended April 30, 2012 to 2016:

Fiscal 2012	$364,540
Fiscal 2013	$280,282
Fiscal 2014	$402,973
Fiscal 2015	$397,343
Fiscal 2016	$325,296

5. The financial statements of the team disclose the following amounts on the balance sheet for "Equipment" (excluding computer equipment) for the fiscal years ended April 30, 2012 to 2016:

	Cost	Net Book Value
Fiscal 2012	$17,057	$3,318
Fiscal 2013	$17,057	$2,654
Fiscal 2014	$2,688	$608
Fiscal 2015	$2,688	$486
Fiscal 2016	$8,635	$5,741

Given the relatively large expenditures in the expenses for equipment and supplies and the relatively minor amounts of equipment that have been capitalized, there may be expenses that should have been capitalized.

TAB 15

SEATTLE THUNDERBIRDS
(All funds in US Dollars)

Findings and Comments

1. We were not provided with any financial statements.
2. KPMG indicated in their report that they had the financial statements for fiscal years ended in May 2012 to 2016.
3. We were provided with a one-page “Profit & Loss” Statement for each of the fiscal years ended in May 2013 to 2016. The statements appear to have been prepared internally from an accounting software package.
6. There are no notes to the statements and we do not know the basis on which they were prepared, other than on an accrual basis.
4. The Profit & Loss statements provided minimal detail as to what accounts were included in the various expenses. There were only seven expense classifications that were shown on the Profit & Loss statements. An example being from the fiscal 2013 Profit & Loss Statement (rounded):

Sales & Marketing	$749,000
Event Management	$937,000
Hockey Roster	$1,281,000
Hockey Development	$225,000
Administrative	$343,000
Corporate	$128,000
Payroll Expenses	$1,000

TAB 15-1

SEATTLE THUNDERBIRDS
(All funds in US Dollars)

5. The income tax returns were prepared on a calendar basis.

6. The following is from the income tax returns (in thousands):

	Calendar Years				
	2012	2013	2014	2015	Total
Business Income	$59	$648	$435	$282	$1,424
Guaranteed payments to partners*	333	368	450	429	1,580
Total	$392	$1,016	$885	$711	$3,004

*It is our understanding that these payments are not a business deduction but in effect a distribution of "profits" to partners where partners have a guaranteed minimum payment to them.

7. The following is from the Profit & Loss Statement (in thousands):

	Fiscal Years Ended May				
	2013	2014	2015	2016	Total
Net Income	$245	$520	$365	$937	$2,067

Although the year ends of the taxation filings differ from those of the "Profit & Loss" Statements with which we were provided, an almost $937,000 difference in profits between the four years warrants an explanation.

The business income per the income tax returns are for the period of January 2012 to December 2015.

The net income per the "Profit & Loss" Statements are for the period of June 2012 to May 2016.

TAB 16

KAMLOOPS BLAZERS

Findings and Comments

1. We were provided financial statements for the fiscal years ended May 31, 2012 to 2016 (with comparative figures). The statements contained review engagement reports by KPMG.
2. The financial statements of the team disclose the following for Profits/(Losses) for the fiscal years ended May 31, 2012 to 2016:

Fiscal 2012	$(356,478)
Fiscal 2013	$108,584
Fiscal 2014	$(302,279)
Fiscal 2015	$(340,053)
Fiscal 2016	$(56,150)

3. The balance sheets for each of these fiscal years show an amount of $1,537,532 for franchise fees.
4. It appears that management believes and/or has tested and satisfied themselves that the value of the intangible assets has not been impaired, notwithstanding that there have been significant losses over the years.

   The following is from note 1(f) of the 2016 financial statements:

> Intangible assets with indefinite useful lives are not amortized; those with limited useful lives are amortized over their useful lives. Both are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Recoverability is measured by a comparison of the carrying amount to the estimated undiscounted future cash flows expected to be generated by the assets. If the carrying amounts of the assets exceed its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amounts of the assets exceed its fair values.

5. The team's external accountants did not qualify their opinion relating to the financial statements of the team (review engagement).

> Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with Canadian accounting standards for private enterprises.
>
> KPMG LLP

TAB 16-1

KAMLOOPS BLAZERS

6. The financial statements of the team disclose amortization for the fiscal years ended May 31, 2011 to 2016:

Fiscal 2011	$663,906
Fiscal 2012	$213,987
Fiscal 2013	$134,585
Fiscal 2014	$66,635
Fiscal 2015	$80,661
Fiscal 2016	$76,313

We do not know if these levels of amortization represent the economic value of the amortization of the assets.

TAB 17

REGINA PATS

Findings and Comments

1. We were provided financial statements for fiscal years ended May 31, 2013 to 2016.
2. KPMG appears to have indicated in their report that they had the financial statements for fiscal years ended May 31, 2012 to 2016, whereas we were not provided with the financial statements for fiscal year ended May 31, 2012.
3. The new owners acquired the assets of the team for $7,000,000 on June 1, 2014. Of this amount, $6,795,000 was allocated to goodwill, notwithstanding that the team had the following losses/profit in fiscal years prior to June 1, 2014:

Fiscal 2012	$(169,802)
Fiscal 2013	$(466,633)
Fiscal 2014	$31,059

   The financial statements of the team disclose amortization for the fiscal years ended May 31, 2012 to 2016:

Fiscal 2012	$41,281
Fiscal 2013	$35,130
Fiscal 2014	$35,324
Fiscal 2015	$292,513*
Fiscal 2016	$531,868*

   We do not know if these levels of amortization represent the economic value for the amortization of the assets.

   *Represents amortization expenses after the team was sold.

4. There were management fees of $75,000 in fiscal 2015. We do not know if this fee represents true economic value to the team.
5. It should be noted that the new owners had donation expenses of:

Fiscal 2015	$60,464
Fiscal 2016	$62,225

   In the same fiscal years, they had the following losses:

Fiscal 2015	$(1,227,455)
Fiscal 2016	$(898,331)

TAB 17-1

REGINA PATS

6. It appears that management believes and/or has tested and satisfied themselves that the value of the intangible assets has not been impaired, notwithstanding that there have been significant losses over the years. The following is from Note 2, of the fiscal 2016 financial statements:

> ***Goodwill***
>
> Goodwill arising in a business combination is recognized as an asset at the date of control (acquisition date). Goodwill is measured as the excess of the cost of the acquisition over the Partnership's interests in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree recognized at the date of acquisition. Goodwill is not amortized but is tested for impairment if events or changes in circumstances indicate that the asset might be impaired.
>
> The impairment test is carried out by comparing the carrying amount of the reporting unit with its fair value. When the carrying amount of a reporting unit, including goodwill, exceeds its fair value, an impairment loss is recognized in an amount equal to the excess.

Goodwill was still valued at the original purchase figure of $6,795,000 at the end of fiscal 2016. It therefore appears that management did not find that the goodwill was impaired by the significant losses that the team incurred after it was purchased.

7. The team's external accountants did not qualify their opinion relating to the fiscal 2016 financial statements of the team (review engagement):

> Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with Canadian accounting standards for private enterprises.
>
> Regina, Saskatchewan
>
> October 18, 2016
>
> MNP LLP
>
> Chartered Professional Accountants

TAB 18

VICTORIA ROYALS

Findings and Comments

1. We were not provided with any externally prepared financial statements.
2. We were not provided with any income returns.
3. We were provided with two-page financial statements for the fiscal years ended December 31, 2012 to 2015 that appear to have been prepared internally and do not contain any notes.
4. We do not know the basis on which the income statements were prepared.
5. The income statements provide very little information. See below for fiscal 2012 and 2011:

West Coast Hockey LLP
(dba Victoria Royals)
Income Statement
For the year ending December 31, 2012 & 2011

Unaudited

	2012	2011
Revenues	$ **3,159,580**	$ 1,456,349
Operating expenses	**3,713,757**	2,032,320
Earnings before depreciation and interest	$ **(554,177)**	$ (575,970)
Depreciation	$ **1,126,261**	$ 1,388,147
Interest expense	**11,147**	-
Net earnings (loss)	$ **(1,691,585)**	$ (1,964,117)

6. The financial statements of the team disclose depreciation for the fiscal years ended December 31, 2012 to 2015:

Fiscal 2012	$1,126,261
Fiscal 2013	$1,158,580
Fiscal 2014	$413,622
Fiscal 2015	$142,789

   We do not know if these levels of depreciation (amortization) represent the economic depreciation of the assets. It appears from the dollar amount of these assets on the balance sheets for fiscal 2011 to 2013 that the amortization rates are high and likely not at economic rates for most years.

TAB 18-1

VICTORIA ROYALS

7. The financial statements of the team disclose the following losses for the fiscal years ended December 31, 2012 to 2015:

Fiscal 2012	$(1,691,585)
Fiscal 2013	$(1,886,893)
Fiscal 2014	$(1,545,206)
Fiscal 2015	$(1,154,671)

8. The balance sheets show "Other assets" of $1,890,000 in four of the five years and $1,945,148 in the other year. If the $1,890,000 relates to goodwill or the cost of the franchise, there does not appear be any impairment recognized in the financial statements, notwithstanding the significant annual losses.

TAB 19

KELOWNA ROCKETS

Findings and Comments

1. We were provided with non-consolidated financial statements for the fiscal years ended June 30, 2012 to 2016.
2. The team has a wholly-owned subsidiary.
3. The subsidiary provides bussing services for the team's travel.
4. We do not have any financial statements for the subsidiary and therefore do not know if it is profitable or not.

TAB 20

PRINCE ALBERT RAIDERS

Findings and Comments

Nothing of note.

TAB 21

BRANDON WHEAT KINGS

Findings and Comments

1. We were provided “Notice to Reader” financial statements for the fiscal years ended May 31, 2012 to 2016.
2. The financial statements of the team disclose amortization for the fiscal years ended May 31, 2012 to 2016:

Fiscal 2012	$40,278
Fiscal 2013	$37,588
Fiscal 2014	$94,884
Fiscal 2015	$191,729
Fiscal 2016	$204,556

We do not know if these levels of amortization represent the economic value for the amortization of the assets.

TAB 22
SASKATOON BLADES

Findings and Comments

1. We were provided "Review Engagement" financial statements for the fiscal years ended June 30, 2012 to 2016.
2. The financial statements of the team disclose revenue for the fiscal years ended June 30, 2012 to 2016:

Fiscal 2012	$2,552,986
Fiscal 2013	$3,445,705
Fiscal 2014	$2,532,594*
Fiscal 2015	$2,646,918
Fiscal 2016	$2,573,048

*On September 4, 2013, ownership of the team was sold.

3. The financial statements of the team disclose profit/losses for the fiscal years ended June 30, 2012 to 2016:

Fiscal 2012	$(140,707)
Fiscal 2013	$181,284
Fiscal 2014	$(1,085,494)*
Fiscal 2015	$(349,216)
Fiscal 2016	$(251,610)

*On September 4, 2013, ownership of the team was sold

4. The financial statements at the end of each of fiscal 2012 to 2016 show intangible assets of $185,000 for the WHL Hockey Franchise.
5. It appears that management believes and/or has tested and satisfied themselves that the value of the intangible assets has not been impaired, notwithstanding that there have been significant losses over the years. The following is from Note 1(e) of the fiscal 2016 financial statements:

> **1. Significant accounting policies (continued):**
>
> (e) Intangible assets:
>
> Intangibles with determinable lives are amortized using the straight-line method based on the estimated useful lives of the intangible assets. When there is a change in the estimated useful life of a finite-life intangible asset, amortization is adjusted prospectively. The carrying amount of an intangible asset whose life is determined to be indefinite is tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may exceed its fair value. An impairment loss is recognized when the asset's carrying amount exceeds its fair value. Impairment losses are not subsequently reversed.

TAB 22-1

SASKATOON BLADES

6. The team's external accountants did not qualify their opinion relating to the fiscal 2016 financial statements of the team (review engagement):

> Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with Canadian accounting standards for private enterprises.
>
> KPMG LLP

7. It appears that the losses in fiscal 2014, being the initial year of operations by the new owners was reduced in subsequent years through reduced administrative salaries. The financial statements of the team disclose administrative salaries for the fiscal years ended June 30, 2012 to 2016:

Fiscal 2012	$690,924
Fiscal 2013	$831,914
Fiscal 2014	$1,229,052*
Fiscal 2015	$675,262
Fiscal 2016	$792,045

*On September 4, 2013 ownership of the team was sold.

8. The financial statements of the team disclose amortization for the fiscal years ended June 30, 2012 to 2016:

Fiscal 2012	$143,393
Fiscal 2013	$133,550
Fiscal 2014	$140,884
Fiscal 2015	$43,029
Fiscal 2016	$46,540

We do not know if these levels of amortization represent the economic value of the amortization of the assets.

9. Funding for the post-secondary education scholarships is conducting through the Saskatoon Blades Educational Scholarship Fund. It is a non-profit entity that was incorporated to hold raffles and other fundraising initiatives to pay for the ongoing expenses of funding education for past and present hockey players of the team.

TAB 23

AMORTIZATION/DEPRECIATION

	Fiscal Year				
	2012	2013	2014	2015	2016
Tri-City Americans – US Dollars (Tab 1)	$193,507	$193,033	$112,259	$192,445	$272,631
Portland Winterhawks - US Dollars (Tab 5)	$35,721	$47,872	$89,929	$204,611	$307,412
Red Deer Rebels (Tab 13)	$87,420	$169,727	$195,883	$177,209	$176,359
Kamloops Blazers (Tab 16)	$213,987	$134,585	$66,635	$66,635	$76,313
Regina Pats (Tab 17)	$41,281	$35,130	$35,324	$292,513*	$531,868*
Victoria Royals (Tab 18)	$1,126,261	$1,158,580	$413,622	$142,789	
Brandon Wheat Kings (Tab 21)	$40,278	$37,588	$94,884	$191,729	$204,556
Saskatoon Blades (Tab 22)	$143,393	$133,550	$140,884	$43,029	$46,540

*Amortization expense after team was purchased.

TAB 24

MANAGEMENT FEES/BONUSES, COMPENSATION OF OFFICERS EMPLOYEE/DIRECTORS/OFFICERS

(In Canadian Funds Unless Noted Otherwise)

	Fiscal or Calendar Year				
	2012	2013	2014	2015	2016
Tri City Americans (Tab 1)					
Compensation of Officers - In US Dollars	$159,000	$154,958	$161,195	$170,740	
Calgary Hitmen (Tab 3)					
Other Professional Fees	$103,765	$104,054	$154,332	$164,885	$187,250
Spokane Chiefs (Tab 4)					
Management Fees/Bonuses - In US Dollars	$97,013	$126,491	$101,320	$51,485	$9,750
Portland Winterhawks (Tab 5)					
Compensation of Officers - In US Dollars	$263,025	$292,375	$354,781	$393,468	$382,568
Kootenay Ice (Tab 12)					
Management Fees and Bonuses					
Midwest Sports Ltd.	$73,613	NIL	$110,663	NIL	NIL
Scott and Rob Niedermayer	$23,888	NIL	$35,910	NIL	NIL
Employees/Directors/Officers	$150,000	$150,000	$150,000	$150,000	$150,000
Red Deer Rebels (Tab 13)					
Management Fees	$652,600	$400,000	$700,000	$725,000	$1,490,000
Medicine Hat Tigers (Tab 14)					
Bonus Payable	$410,000	$140,000	NIL	NIL	NIL
Regina Pats (Tab 17)					
Management Fees	NIL	NIL	NIL	$75,000	NIL

The above amounts are based upon teams that disclosed these amounts individually in their financial statements or income tax returns.

TAB 25

UNUSUAL FLUCTUATIONS OR UNUSUALLY HIGH EXPENSES

	Fiscal Year				
	2012	2013	2014	2015	2016
Swift Current Broncos (Tab 7)					
Hockey equipment and supplies	$79,645	$43,416	$48,496	$190,392*	$77,820
Everett Silvertips (Tab 11)					
Administration expenses	$101,315**	$1,433,430*	$472,379	$438,282	$442,871
Medicine Hat Tigers (Tab 14)					
Repairs and maintenance	$5,306	$3,323	$110,021*	$3,427	$17,315
Equipment and supplies***	$364,540	$280,282	$402,973	$397,343	$325,296
Saskatoon Blades (Tab 22)					
Administration salaries	$690,924	$831,914	$1,229,052****	$675,262	$792,045

* Unusually high expense.

** Expense is only for a three-month period.

*** Unusually high expense in each year.

**** Unusually high and the team was sold on September 4, 2013.

TAB 26

NON-DEDUCTIBLE MEALS AND ENTERTAINMENT EXPENSES

We reviewed the tax returns for the adjustments to taxable income, specifically "add-backs" for 50% of the non-deductible meals and entertainment expenses. The following are the more significant "add-backs" for the teams that we had the relevant details. Note that the expense for the year would have been double these figures and are noted at the bottom of this page.

	Fiscal Year				
	2012	2013	2014	2015	2016
Vancouver Giants (Tab 6)	$60,219	$66,064	$66,106	$74,218	$73,234
Edmonton Oil Kings (Tab 8)	$137,231	$128,057	$130,233	$107,725	$140,382
Prince George Cougars (Tab 10)	$41,499	$39,374	$1,707	$80,615	$109,192
Kamloops Blazers (Tab 16)	$0	$41,211	$32,629	$0	$44,753
Saskatoon Blades (Tab 22)	Unknown	Unknown	$108,698	$52,161	$48,604

100% of The Amount Expended
(Rounded)

	Fiscal Year				
	2012	2013	2014	2015	2016
Vancouver Giants	$120,000	$132,000	$132,000	$148,000	$146,000
Edmonton Oil Kings	$274,000	$256,000	$260,000	$215,000	$281,000
Prince George Cougars	$83,000	$79,000	$3,000	$161,000	$218,000
Kamloops Blazers	$0	$82,000	$65,000	$0	$90,000
Saskatoon Blades	Unknown	Unknown	$217,000	$104,000	$97,000

As we do not have complete income tax returns for all of the teams, it is possible that other teams may have significant add-backs as well.

TAB 27

PURCHASE OF TEAMS

(In Canadian Funds Unless Noted Otherwise)

	Fiscal Year 2012	2013	2014	2015*	2016*
Prince George Cougars (Tab 10)					
Goodwill Purchased				$6,381,133	
Pre-Tax Income/(Loss) –Of Selling Team	*($620,186)*	*($746,899)*	*($766,329)*		
Regina Pats (Tab 17)					
Goodwill Purchased				$6,795,000	
Pre-Tax Income/(Loss) – Of Selling Team	*($169,802)*	*($466,433)*	*$31,059*		
Sarnia Sting					
Intangible Capital Assets Purchased****				$7,704,025	
Pre-Tax Income/(Loss) – Of Selling Team)		*Information not available*			
Hamilton Bulldogs**					
Goodwill Purchased				$10,256,000	
Pre-Tax Income/(Loss) – Of Selling Team	*($137,513)*	*$115,268*	*($212,902)*		
Erie Otters***					
Goodwill Purchased (rounded)					$10,432,000
Pre-Tax Income/(Loss) – Of Selling Team			*US$(150,042)*		

* Balance sheet amount and fiscal year of the purchaser.

** The team was previously named the Belleville Bulls and the team had a franchise cost on its balance sheet of $3,385,839 in the fiscal year prior to the sale of the team.

*** The selling team had goodwill and franchise on its balance sheet totalling US$3,916,298 in its 2014 fiscal year. We do not have any financial statements after that fiscal year.

**** There is no breakdown of the intangible assets that were purchased. Based upon the other purchases we would expect that the vast majority would relate to goodwill and/or franchise fee.

TAB 28

INTANGIBLE ASSETS

	Fiscal Year				
	2012	2013	2014	2015	2016
Vancouver Giants (Tab 6)					
Franchise Fee	$1,100,000	$1,100,000	$1,100,000	$1,100,000	$1,100,000
Other Intangible Assets *	491,250	491,250	491,250	491,250	491,250
Total	$1,591,250	$1,591,250	$1,591,250	$1,591,250	$1,591,250
Pre-Tax Income/(Loss)	*($371,666)*	*($111,681)*	*($355,071)*	*($406,385)*	*($725,041)*
Prince George Cougars (Tab 10)					
Goodwill				$6,381,133	$6,381,133
Pre-Tax Income/(Loss)	*($620,186)*	*($746,899)*	*($766,329)*	*($1,056,550)*	*($785,280)*
Kamloops Blazers (Tab 16)					
Franchise Fees	$1,537,532	$1,537,532	$1,537,532	$1,537,532	$1,537,532
Pre-Tax Income/(Loss)	*($356,478)*	*$108,583*	*($302,279)*	*($340,053)*	*($56,150)*
Regina Pats (Tab 17)					
Goodwill				$6,795,000	$6,795,000
Pre-Tax Income/(Loss)	*($169,802)*	*($466,433)*	*$31,059*	*($1,227,455)*	*($898,331)*

* Relates to past services and expenditures made in connection with obtaining the franchise.

APPENDIX A

SCOPE OF REVIEW

For this report, we have primarily relied upon and/or reviewed the following information:

1. December 22, 2016 report entitled "Western Hockey League Summary of Financial Information" prepared by KPMG Forensic Inc.
2. December 22, 2016 report entitled "Ontario Hockey League Summary of Financial Information" prepared by KPMG Forensic Inc.
3. Memorandum of Decision of the Honourable Mr. Justice R.J. Hall dated October 28, 2016.
4. Excerpts from the affidavits of:
    - Ron Robison, the Commissioner of the WHL, sworn December 22, 2015.
    - Chad Taylor (Moose Jaw Warriors) sworn December 15, 2015.
    - Bob Tory (Tri-City Americans) sworn December 16, 2015.
    - Gordie Broda (Prince Albert Raiders) sworn December 18, 2015.
5. June 14, 2016 expert report of Kevin P. Mongeon.
6. December 21, 2016 expert report of Norm O'Reilly.
7. Financial Statements of WHL teams, see Appendix A-1 and A-2.
8. Tax Returns of WHL teams, see Appendix A-1.
9. Financial Statements of WHL for the years ended June 30, 2012 to June 30, 2016.
10. Financial Statements of Canadian Hockey League for the years ended June 30, 2012 to June 30, 2016.
11. "2016 WHL Scholarship Liability Summary" printout.
12. "WHL Scholarship Payments 2012-2016 (In Canadian Dollars)" printout.
13. Financial statements of the following Ontario Hockey League teams
    - Belleville Bulls for the fiscal years ended May 31, 2012 to May 31, 2014.
    - Hamilton Bulldogs for the fiscal years ended June 30, 2016.
    - Erie Otters for the fiscal year ended June 30, 2014 and January 31, 2016.
14. "The Asset Purchase Agreement" dated as of May 29, 2015 for the Erie Otters.
15. Tax return for the OHL Sarnia Sting team for the tax year-end of May 31, 2016.
16. Information from the Bank of Canada website for foreign exchange rates.
17. Information from the IRS (USA) website for "guaranteed payments" from a partnership.

APPENDIX A-1

Team "Financial Statements" and Tax Returns

Team Name	"Balance Sheet" Period	"Income Statement" Period	Tax Return Period
Tri City Americans	May 31, 2012 to May 31, 2016	Years ended May 31, 2012 to May 31, 2016	Years ended December 31, 2012 to December 31, 2015
Lethbridge Hurricanes	May 31, 2012 to May 31, 2016	Years ended May 31, 2012 to May 31, 2016	Years ended May 31, 2012 to May 31, 2016
Calgary Hitmen		"2011/2012" to "2015/2016"	
Spokane Chiefs	May 31, 2012 to May 31, 2016	Years ended May 31, 2012 to May 31, 2016	Years ended December 31, 2012 to December 31, 2015
Portland Winterhawks			Years ended May 31, 2012 to May 31, 2016
Vancouver Giants	May 31, 2012 to May 31, 2016	Years ended May 31, 2012 to May 31, 2016	Years ended May 31, 2012 to May 31, 2016
Swift Current Broncos	May 31, 2012 to May 31, 2016	Years ended May 31, 2012 to May 31, 2016	Years ended May 31, 2012 to May 31, 2016
Edmonton Oil Kings	June 30, 2012 to June 30, 2016	Years ended June 30, 2012 to June 30, 2016	Years ended June 30, 2012 to June 30, 2016
Moose Jaw Warriors	May 31, 2012 to May 31, 2016	Years ended May 31, 2012 to May 31, 2016	Years ended May 31, 2012 to May 31, 2016
Prince George Cougars	June 30, 2016 (with comparative for previous two years)	Year ended June 30, 2013 (with prior year comparative); Year ended March 31, 2014 (with prior year comparative); Year ended June 30, 2016 (with comparative for year ended June 30, 2015 and 3-month period ended June 30, 2014)	Years ended June 30, 2012 to June 30, 2016
Everett Silvertips		3-month period ended August 31, 2012 and years ended August 31, 2013 to August 31, 2016	
Kootenay Ice	June 30, 2012 to June 30, 2016	Years ended June 30, 2012 to June 30, 2016	Years ended June 30, 2012 to June 30, 2016
Red Deer Rebels	May 31, 2013 (with prior year comparative) to May 31, 2016	Years ended May 31, 2013 (with prior year comparative) to May 31, 2016	Years ended May 31, 2012 to May 31, 2016
Medicine Hat Tigers	April 30, 2012 to April 30, 2016	Years ended April 30, 2012 to April 30, 2016	Years ended April 30, 2012 to April 30, 2016
Seattle Thunderbirds		Years ended May 31, 2013 to May 31, 2016	Years ended December 31, 2012 to December 31, 2015
Kamloops Blazers	May 31, 2012 to May 31, 2016	Years ended May 31, 2012 to May 31, 2016	Years ended May 31, 2013, May 31, 2014 and May 31, 2016
Regina Pats	May 31, 2013 (with prior year comparative) to May 31, 2016	Years ended May 31, 2013 (with prior year comparative) to May 31, 2016	
Victoria Royals	December 31, 2012 to December 31, 2015	Years ended December 31, 2012 to December 31, 2015	
Kelowna Rockets	June 30, 2012 to June 30, 2016	Years ended June 30, 2012 to June 30, 2016	Years ended June 30, 2012 to June 30, 2016
Prince Albert Raiders	May 31, 2012 to May 31, 2016	Years ended May 31, 2012 to May 31, 2016	Years ended May 31, 2013 to May 31, 2016
Brandon Wheat Kings	May 31, 2012 to May 31, 2016	Years ended May 31, 2012 to May 31, 2016	Years ended May 31, 2012 to May 31, 2016
Saskatoon Blades	June 30, 2012 to June 30, 2016	Years ended June 30, 2012 to June 30, 2016	Years ended June 30, 2012 to June 30, 2016

Note: Financial statement documentation ranged from one-page summaries to full audited statements complete with notes.
Tax return documentation ranged from the first page of the return only, to complete returns with all relevant schedules.

APPENDIX A-2

AUDIT, REVIEW OR OTHER COMPILATION OF FINANCIAL STATEMENTS

Team Name	Audited	Review Engagement	Notice to Reader or Internally Prepared
Tri City Americans			2012 to 2016
Lethbridge Hurricanes	2012 to 2016		
Calgary Hitmen			2012 to 2016
Spokane Chiefs			2012 to 2016
Portland Winterhawks			
Vancouver Giants		2012 to 2016	
Swift Current Broncos		2012 to 2016	
Edmonton Oil Kings			2012 to 2016
Moose Jaw Warriors	2012 to 2016		
Prince George Cougars			2012 to 2016
Everett Silvertips			2012 (3 months), 2013 to 2016
Kootenay Ice		2012 to 2016	
Red Deer Rebels			2012 to 2016
Medicine Hat Tigers			2012 to 2016
Seattle Thunderbirds			2013 to 2016
Kamloops Blazers		2012 to 2016	
Regina Pats		2015, 2016	2012, 2013, 2014
Victoria Royals			2012 to 2015
Kelowna Rockets		2012 to 2016	
Prince Albert Raiders	2012 to 2016 (Draft in 2016)		
Brandon Wheat Kings			2012 to 2016
Saskatoon Blades		2012 to 2016	

Note: The period may include years where comparative figures were obtained from the subsequent fiscal year's financial statements.

APPENDIX B

CURRICULUM VITAE OF RONALD T. SMITH

ACADEMIC / PROFESSIONAL:

Chartered Accountant (1977)

Chartered Professional Accountant (2012)

Certified as a specialist in investigative and forensic accounting by the Canadian Institute of Chartered Accountants (2000)

Certified in Financial Forensics by the AICPA (American Institute of CPAs) (2016)

Bachelor of Commerce, Major in Accountancy (1974)

Chartered Insurance Professional (1999)

Arbitration and Mediation Member of the ADR Institute of Ontario, Inc. (2000)

Advanced Mediation Training - ADR Associates, sponsored by The Advocates' Society, Toronto (1997)

Harvard Mediation Workshop, sponsored by The Advocates' Society, Toronto (1996)

Faculty member of the Diploma in Investigative and Forensic Accounting Program, Rotman School of Management, University of Toronto (2001 to 2003)

Collaborative Practice: Level I Training (2010) and Level II Training (2012)

CAREER:

Founded his own forensic accounting practice in November 1987, currently operating as Smith Forensics Inc. The firm specializes exclusively in litigation support and dispute resolution services. The firm assists clients in the quantification of economic losses and provides forensic accounting and neutral services.

From October 1979 to November 1987 specialized in litigation support with a national firm of chartered accountants and was the director of the Toronto office's Litigation Support Services Group from July 1985 to November 1987.

Auditor from 1973 to October 1979.

ASSIGNMENTS-CIVIL:

Insurance Claims:
- Business Interruption
- Personal Injury (tort and no-fault)
- Products Liability
- Indemnity Bonds
- Property Losses

Breach of Contract Cases
Negligence Actions
Partner/Shareholder Disputes
Matrimonial Matters
Environmental Damages
Construction Delay Claims

ASSIGNMENTS-CRIMINAL:	Securities Violations Tax Evasion Homicide/Arson (financial motive) Employee Theft Fraud
EXPERT WITNESS:	Appeared as an expert witness in the Federal Court (Canada), Ontario Court, General Division, Supreme Court of British Columbia, Ontario Insurance Commission and private arbitrations with respect to accounting matters.
MEDIATION/ARBITRATION:	Mediated a commercial dispute. Arbitrated a commercial dispute.
BOOKS:	"Accounting For Damages: A Framework For Litigation Support", Second Edition (Carswell-Thomson Canada Limited - 1993). "Accounting For Damages: A Framework For Litigation Support" (CCH Canadian Limited - 1987). Contributing author to "Damages For Breach of Contract" (Pitch/Snyder - The Carswell Company Limited - 1990).
ARTICLES:	"Insurance Claims Versus Subrogated Claims" (Canadian Insurance Accountants Association, Education & Technical Committee Information Circular 1994-2). "Evaluating Offers to Settle and Judgments" (The Advocates' Society Journal, April 1985). "Assessing Damages: An Accountant's Perspective" (The Advocates' Society Journal, December 1984). "The Litigation Accountant as Part of the Litigation Support Team" (The Advocates' Society Journal, May 1984). Article in the April 1996 and Summer 2001 publications of "The Balance Sheet" (publication of the Alliance for Excellence in Investigative and Forensic Accounting of the CICA and its predecessor organization).

INTERVIEWS:

DISCOVERY CHANNEL - September 30, 1997
"Exhibit A
Secrets of Forensic Science" - television production.

CA MAGAZINE - January/February 1997
"BRANCH PLANS - Six high-growth areas of specialization".

CA MAGAZINE - May 1992
"MATTERS OF INTEREST - The CICA reaches beyond the core with interest groups".

CANADIAN BUSINESS Magazine - January 1985
"Final tally: how litigation support gets companies a better day in court".

PRESENTATIONS:

Co-presenter of presentation entitled "Wrongful Death: Quantification of Damages and Related Issues that You were Afraid to Ask" at the Alliance for Excellence in Investigative and Forensic Accounting Conference (2010).

Presenter at *in*SIGHT INFORMATION conference entitled "Litigating Catastrophic Disability and Damages" (2006).

Co-presenter of presentation entitled "Damages Quantification" at The 7th Alliance for Excellence in Investigative and Forensic Accounting Conference (2005).

Co-presenter of presentation entitled "Personal Injury Update" at The 6th Alliance for Excellence in Investigative and Forensic Accounting Conference (2004).

Conducted workshop on the quantification of economic losses at The 2nd Alliance for Excellence in Investigative and Forensic Accounting Conference (2000).

Panel member of open forum discussion entitled, "Pitfalls to Avoid in Performing IFA Assignments" at The 1st Alliance for Excellence in Investigative and Forensic Accounting Conference (1999).

Numerous presentations regarding the subject of quantification of economic losses to law firms and organizations including:

Insurance Institute of Ontario
Fraudulent and Suspicious Claims.

The Law Society of Upper Canada
Specialty series in litigation.

Canadian Bar Association of Ontario
Insurance Law Section.

Waterloo Law Association.

Lincoln County Law Association.

OTHER PROFESSIONAL ACTIVITIES:

Member of the board of the Alliance for Excellence in Investigative and Forensic Accounting (formerly the Investigative and Forensic Accounting Interest Group) of The Canadian Institute of Chartered Accountants from 1992 to 2001. Editor of its newsletter from 1992 to 1996.

Developed the course entitled "Practice Issues" for the Diploma in Investigative and Forensic Accounting Program, Rotman School of Management, University of Toronto (2001).

Member of The Canadian Institute of Chartered Accountants Advisory Group on Money Laundering Legislation (1999-2002).

Participant representing The Canadian Institute of Chartered Accountants in Ottawa at the Forum on Organized Crime - sponsored by the Minister of Justice and the Solicitor General of Canada (1996).

Requested by the Ontario Human Rights Commission to comment on their proposed "Undue Hardship Guidelines" (1988).

PROFESSIONAL MEMBERSHIPS:

The Chartered Professional Accountants of Canada (formerly the Canadian Institute of Chartered Accountants) and Chartered Professional Accountants of Ontario (formerly the Institute of Chartered Accountants of Ontario).

The Canadian Condominium Institute.

The Insurance Institute of Canada and the Insurance Institute of Ontario.

ADR Institute of Canada, Inc. and the ADR Institute of Ontario, Inc.

Collaborative Practice Toronto.

MATTERS OF NOTE:

Steve Moore et al v Todd Bertuzzi et al

Slaght v Phillips et al
Decision regarding Rule 53.09 (1) of the Ontario Rules of Civil Procedure.

Maher Arar et al v Her Majesty the Queen in Right of Canada et al.

Ryan Morrison et al v Cory Greig et al
Plaintiff awarded $12.4 million in gross damages.

Plester v Wawanesa Mutual Insurance Company
Plaintiff awarded significant punitive damages.

APPENDIX C

S.N.ROY & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Moose Jaw Tier 1 Hockey Inc. (Operating as Moose Jaw Warriors Community Hockey Club)

We have audited the accompanying financial statements of Moose Jaw Tier 1 Hockey Inc., (Operating as Moose Jaw Warriors Community Hockey Club), which comprise the balance sheet as at May 31, 2016 and the statements of loss and retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

Basis for Qualified Opinion

In common with many not-for-profit organizations, Moose Jaw Tier 1 Hockey Inc., (Operating as Moose Jaw Warriors Community Hockey Club), derives revenue from fundraising activities the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of Moose Jaw Tier 1 Hockey Inc., (Operating as Moose Jaw Warriors Community Hockey Club),. Therefore, we were not able to determine whether any adjustments might be necessary to fundraising revenue, excess of revenues over expenses, and cash flows from operations for the year ended May 31, 2016, current assets and net assets as at June 1, 2015 and May 31, 2016

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Moose Jaw Tier 1 Hockey Inc., (Operating as Moose Jaw Warriors Community Hockey Club), as at May 31, 2016 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Moose Jaw, Saskatchewan
July 18, 2016

S.N.Roy & Associates

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APPENDIX D

KPMG LLP
200-206 Seymour Street
Kamloops BC V2C 6P5
Canada
Tel (250) 372-5581
Fax (250) 828-2928

REVIEW ENGAGEMENT REPORT

To the Partners of Kamloops Blazers Hockey Club Limited Partnership

We have reviewed the balance sheet of Kamloops Blazers Hockey Club Limited Partnership as at May 31, 2016 and the statements of operations, partners' deficiency and cash flows for the year then ended. Our review was made in accordance with Canadian generally accepted standards for review engagements and, accordingly, consisted primarily of enquiry, analytical procedures and discussion related to information supplied to us by the partners.

A review does not constitute an audit and, consequently, do not express an audit opinion on these financial statements.

Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with Canadian accounting standards for private enterprises.

KPMG LLP

Chartered Professional Accountants

August 4, 2016

Kamloops, Canada

APPENDIX E

BDO

Tel: 403 342 2500
Fax: 403 346 3070
www.bdo.ca

BDO Canada LLP
Millennium Centre
600, 4909 49 Street
Red Deer AB T4N 1V1 Canada

NOTICE TO READER

On the basis of information provided by management, we have compiled the balance sheet of Rebels Sports Ltd. as at May 31, 2016 and the statement of loss and retained earnings for the year then ended.

We have not performed an audit or a review engagement in respect of these financial statements and, accordingly, we express no assurance thereon.

Readers are cautioned that these statements may not be appropriate for their purposes.

BDO Canada LLP

Chartered Professional Accountants

Red Deer, Alberta
October 18, 2016

APPENDIX F

1. Significant accounting policies (continued):

(b) Revenue recognition:

Season ticket revenue is recognized on the first game of the regular season. Play-off package revenue is recognized on a game by game basis upon the commencement of the play-off series.

Game ticket, souvenir and retail revenues are recognized at point of sale.

Box office, draft funds, expansion fees, bus rental, player development, program, Memorial Cup, marketing and security revenues are recognized in accordance with contracts or agreements.

All revenues are recognized in accordance with the above noted recognition policies, when collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable.

Deposits received and revenue related to any advance billings are deferred in current liabilities until the revenue is earned.

(c) Basis of presentation:

These financial statements do not include all assets, liabilities, revenues and expenses of the partners, and no provision has been made for income taxes which may be payable by them on the net earnings of the business. The statement of earnings does not include charges for partners' salaries or interest on invested capital.

1. Significant accounting policies (continued):

(d) Inventories:

Inventories consist of hockey equipment and retail store merchandise and are stated at the lower of cost, on a weighted average basis, and net realizable value. The cost of inventories is comprised of directly attributable costs and includes the purchase price plus other costs incurred in bringing the inventories to their present location. Costs that do not contribute to bring inventories to their present location and condition, such as storage and administrative overheads, are specifically excluded from the cost of inventories and are expensed as incurred.

The Partnership estimates net realizable value as the amount of inventories expected to be sold or consumed, less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of the inventories is not estimated to be recoverable due to obsolescence, damage or permanent declines in selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in retail selling price, the previous impairment is reversed.

(e) Property and equipment:

Property and equipment is stated at cost, less accumulated amortization. Amortization is provided over the estimated useful lives starting when the asset is available for use. Amortization rates are reviewed periodically to ensure they are aligned with estimates of remaining economic useful lives of the associated assets. Amortization is provided using the following methods and annual rates:

Asset	Basis	Rate
Machinery and equipment	Declining balance	20%
Furniture and fixtures	Declining balance	20%
Vehicles	Declining balance	30%
Computer	Declining balance	30%
Computer software	Declining balance	20%
Leasehold improvements	Straight-line	5 years

The team bus, included in vehicles, is recorded at cost and amortized on a straight-line basis over five years.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the property and equipment may not be recoverable and exceeds its fair value.

1. Significant accounting policies (continued):

(f) Player contracts and rights and other intangible assets:

The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair values.

Intangible assets with indefinite useful lives are not amortized; those with limited useful lives are amortized over their useful lives. Both are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Recoverability is measured by a comparison of the carrying amount to the estimated undiscounted future cash flows expected to be generated by the assets. If the carrying amounts of the assets exceed its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amounts of the assets exceed its fair values.

(g) Financial instruments:

Financial instruments originating in an arm's length transaction are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently measured at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Partnership has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs. These costs are amortized using the straight-line method.

1. Significant accounting policies (continued):

(g) Financial instruments (continued):

In the case of financial instruments that originate as a result of a related party transaction, initial measurement will be at exchange amount or carrying value in accordance with Section 3840, Related Party Transactions, rather than fair value. If the sole relationship is in the capacity of management, the parties involved are deemed to be unrelated for purposes of Section 3856, Financial Instruments, and as such, transactions will be initially measured at fair value.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Partnership determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Partnership expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial impairment charge.

(h) Use of estimates:

The preparation of the financial statements in accordance with ASPE requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the recoverable amount and useful lives of property and equipment, the recoverable amount of inventories, accounts receivable and the settlement of the scholarship liability. Actual results could differ from those estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the year in which they become known or are revised.

2. Inventories:

		2016		2015
Hockey equipment	$	75,264	$	79,859
Retail store		83,739		105,983
	$	159,003	$	185,842

The amount of inventory expensed at May 31, 2016 in cost of sales was $303,830 (2015 - $274,219).

Inventories have been pledged as security for the Partnership's bank indebtedness (note 4) and callable debt (note 6) in accordance with their respective agreements.

3. Property and equipment:

		Cost		Accumulated amortization		2016 Net book value		2015 Net book value
Machinery and equipment	$	292,169	$	230,673	$	61,496	$	64,690
Furniture and fixtures		189,950		160,741		29,209		36,511
Vehicles		577,403		550,431		26,972		36,125
Computer		205,098		173,809		31,289		21,046
Computer software		44,685		35,399		9,286		11,008
Leasehold improvements		369,524		292,685		76,839		110,908
	$	1,678,829	$	1,443,738	$	235,091	$	280,288

Property and equipment has been pledged as security for the Partnership's bank indebtedness (note 4) and callable debt (note 6) in accordance with their respective agreements.

4. Bank indebtedness:

Bank indebtedness is comprised of an overdraft lending facility with the Canadian Western Bank ("CWB") available to a maximum of $500,000. Interest is charged on the outstanding balance at the bank's prime commercial lending rate plus 1.0% (May 31, 2016 - 3.7%, in aggregate). The overdraft lending facility is under the same terms, including security held, as the CWB loan detailed in note 6.

5. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities at May 31, 2016 are government remittances payable of $19,598 (2015 - $19,239), which are amounts payable for provincial and federal sales taxes.

Included in accounts payable is $600,000 (2015 - $259,990) owing to Northland Properties Corporation which is a related party of the partnership.

6. Callable debt:

	2016	2015
CWB, demand loan, bearing interest at the bank's prime commercial lending rate plus 1.0% (May 31, 2016 - 3.7%, in aggregate), with monthly interest only payments, annual principal reduction of no less than $200,000 per year due by September 30 of each year, secured by a general security agreement, including a first charge over specific property and guarantees from the limited partners, due July 2017	$ 1,900,000	$ 2,100,000
Principal payments due on callable debt in the next 12 months	200,000	2,100,000
	$ 1,700,000	$ -

Included in interest on debt expense is $75,826 (2015 - $83,223) in interest on callable debt.

The CWB demand loan is subject to certain financial and non-financial covenants including a cash flow coverage ratio of not less than 1.00:1. As at May 31, 2016, the Partnership is in compliance with the cash flow coverage ratio.

7. Scholarship liability:

Scholarships are granted to graduating players who were not drafted or signed by a National Hockey League Team. To be eligible, players must comply with the terms and conditions of the Western Hockey League scholarship program as specified in their contract with the Kamloops Blazers and register with an accredited Canadian university or college in the first available academic year following the completion of their junior hockey career. Management estimates that $500,000 would be required to be expended on eligible players attending university or college in future years. Actual scholarship costs expensed in the current year are $57,602 (2015 - $37,272).

8. Related party transactions:

The Partnership entered into the following transactions with related parties:

		2016		2015
Sandman Hotels, Inns, & Suites - travel expense	$	40,000	$	35,000
Denny's and Moxie's Restaurants - travel expense		20,000		20,000
	$	60,000	$	55,000

These related party transactions are in the normal course of operations and are measurable at the exchange amount which is the amount of consideration established and agreed to by the related parties.

9. Commitments:

The Partnership is committed to minimum annual lease payments under various operating leases for equipment, recreational premises, facilities, advertising and a luxury suite. The Partnership leases recreational premises and facilities from the City of Kamloops expiring August 31, 2018, increasing 2% each year, compounded. In addition, included in the lease agreement is an advertising fee paid in equal monthly payments increasing 2% each year, compounded. Minimum annual lease payments for the next three years and thereafter are as follows:

2017	$	578,795
2018		587,361
2019		140,125
	$	1,306,281

10. Financial risks and concentration of risk:

(a) Credit risk:

The Partnership is exposed to financial risk that arises from the credit quality of the entities to which it provides goods and services to. Credit risk arises from the possibility that the entities to which the Partnership sells its goods may experience financial difficulty and be unable to fulfil their obligations. The maximum amount of credit risk is the carrying value of these assets. There has been no change to the risk exposures from 2015.

(b) Liquidity risk:

Liquidity risk is the risk that the Partnership will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Partnership manages its liquidity risk by monitoring its operating requirements. The Partnership prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. There has been no change to the risk exposures from 2015.

(c) Interest rate risk:

The Partnership's bank indebtedness and callable debt has a variable interest rate based on bank's prime commercial lending rate plus a margin. As a result, the Partnership is exposed to interest rate cash flow risk due to fluctuations in the commercial prime lending rate. The Partnership did not employ interest rate hedging activities during the year, allowing these debts to generally float at market rates of interest. There has been no change to the risk exposures from 2015.

10. Financial risks and concentration of risk: (continued):

Concentration of risk:

(a) Industry:

The Partnership operates in the retail environment and is affected by general economic trends. A decline in economic conditions, consumer-spending levels or other adverse conditions could lead to reduced revenue and profitability.

11. Comparative figures:

Certain comparative amounts have been reclassified from those previously presented to conform to the presentation of the 2016 financial statements.

APPENDIX G

Form **1120**

Department of the Treasury
Internal Revenue Service

U.S. Corporation Income Tax Return

For calendar year 2015 or tax year beginning 6/01 **, 2015, ending** 5/31 **, 2016**

► **Information about Form 1120 and its separate instructions is at *www.irs.gov/form1120*.**

OMB No. 1545-0123

2015

A Check if:
1 a Consolidated return (attach Form 851) ☐
b Life/nonlife consolidated return ☐
2 Personal holding co. (attach Sch. PH) ☐
3 Personal service corp. (see instrs) ☐
4 Schedule M-3 attached ☐

TYPE OR PRINT

PORTLAND WINTERHAWKS, INC.
P.O. BOX 3009
PORTLAND, OR 97208

B Employer identification number: 93-0667055

C Date incorporated: 7/21/1976

D Total assets (see instructions): $ 1,815,227.

E Check if: (1) ☐ Initial return (2) ☐ Final return (3) ☐ Name change (4) ☐ Address change

INCOME	1 a	Gross receipts or sales	1 a	5,657,050.		
	b	Returns and allowances	1 b			
	c	Balance. Subtract line 1b from line 1a			1 c	5,657,050.
	2	Cost of goods sold (attach Form 1125-A)			2	243,868.
	3	Gross profit. Subtract line 2 from line 1c			3	5,413,182.
	4	Dividends (Schedule C, line 19)			4	
	5	Interest			5	2,533.
	6	Gross rents			6	
	7	Gross royalties			7	
	8	Capital gain net income (attach Schedule D (Form 1120))			8	
	9	Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)			9	
	10	Other income (see instructions — attach statement)			10	
	11	**Total income.** Add lines 3 through 10 ►			11	5,415,715.
DEDUCTIONS (SEE INSTRUCTIONS FOR LIMITATIONS ON DEDUCTIONS)	12	Compensation of officers (see instructions — attach Form 1125-E) ►			12	382,568.
	13	Salaries and wages (less employment credits)			13	1,737,330.
	14	Repairs and maintenance			14	18,949.
	15	Bad debts			15	37,500.
	16	Rents			16	771,409.
	17	Taxes and licenses SEE STATEMENT 1			17	196,191.
	18	Interest			18	20,891.
	19	Charitable contributions SEE STATEMENT 2			19	0.
	20	Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)			20	307,412.
	21	Depletion			21	
	22	Advertising			22	422,687.
	23	Pension, profit-sharing, etc., plans			23	
	24	Employee benefit programs			24	40,892.
	25	Domestic production activities deduction (attach Form 8903)			25	
	26	Other deductions (attach statement) SEE STATEMENT 3			26	1,671,881.
	27	**Total deductions.** Add lines 12 through 26 ►			27	5,607,710.
	28	Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11			28	-191,995.
	29a	Net operating loss deduction (see instructions) SEE ST 4	29a	0.		
	b	Special deductions (Schedule C, line 20)	29b			
	c	Add lines 29a and 29b			29c	
TAX, REFUNDABLE CREDITS, AND PAYMENTS	30	**Taxable income.** Subtract line 29c from line 28 (see instructions)			30	-191,995.
	31	Total tax (Schedule J, Part I, line 11)			31	0.
	32	Total payments and refundable credits (Schedule J, Part II, line 21)			32	0.
	33	Estimated tax penalty (see instructions). Check if Form 2220 is attached ► ☐			33	
	34	**Amount owed.** If line 32 is smaller than the total of lines 31 and 33, enter amount owed			34	0.
	35	**Overpayment.** If line 32 is larger than the total of lines 31 and 33, enter amount overpaid			35	
	36	Enter amount from line 35 you want: Credited to 2016 estimated tax ►		Refunded ►	36	

DRAFT

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer | Date | PRESIDENT Title

May the IRS discuss this return with the preparer shown below (see instructions)? ☒ Yes ☐ No

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check ☐ if self-employed	PTIN
CARL W. FOSTER				P00009266

Firm's name ► FOSTER & ASSOCIATES, CPA, LLC — Firm's EIN ► 46-1881127

Firm's address ► 9011 SW BEAVERTON-HILLSDALE HWY #1A
PORTLAND, OR 97225 — Phone no. (503) 297-2610