Fredericton Convention Centre Inc.

Financial statements

December 31, 2021

Building a better working world

Independent auditor's report

To the Shareholder of
Fredericton Convention Centre Inc.

Opinion

We have audited the financial statements of **Fredericton Convention Centre Inc.** [the "Company"], which comprise the statement of financial position as at December 31, 2021, and the statement of income and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and its results of operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards ["IFRS"].

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Ernst & Young LLP

Chartered Professional Accountants

Fredericton, Canada
March 25, 2022

Fredericton Convention Centre Inc.

Statement of financial position

As at December 31

	2021	2020
	$	$
Assets		
Current		
Cash	**2,941,666**	823,890
Accounts receivable	**25,488**	117,310
Due from City of Fredericton	**1**	1
Prepaid expenses	**24,983**	13,151
Total current assets	**2,992,138**	954,352
Property, equipment and intangible assets *[schedule 1]*	**73,857**	95,856
Investments *[note 7]*	**886,407**	2,395,915
	3,952,402	3,446,123
Liabilities and shareholder's equity		
Current		
Accounts payable and accrued liabilities	**118,209**	106,751
Unearned revenue	**142,557**	118,016
Total current liabilities	**260,766**	224,767
Shareholder's equity		
Capital replacement reserve *[note 6]*	**3,242,726**	2,819,474
Share capital		
Authorized unlimited number of common shares		
Issued 1 common share	**1**	1
Retained earnings	**320,972**	328,609
Other comprehensive income	**127,937**	73,272
Total shareholder's equity	**3,691,636**	3,221,356
	3,952,402	3,446,123

See accompanying notes

On behalf of the Board:

Director

Fredericton Convention Centre Inc.

Statement of profit and other comprehensive income

Year ended December 31

	2021	2020
	$	**$**
Event revenue	**64,577**	380,279
Direct expenses	**(62,520)**	(321,757)
Gross profit	**2,057**	58,522
Grant income *[notes 5 and 8]*	**950,000**	950,000
Rental income	**466,837**	281,640
Salaries and payroll	**(575,777)**	(570,802)
Building maintenance	**(284,663)**	(348,864)
General and administrative	**(163,909)**	(199,573)
Depreciation	**(21,999)**	(28,100)
Advertising, marketing and promotion	**(21,535)**	(34,866)
	351,011	107,957
Finance income	**38,259**	57,243
Gain on sale of investment	**26,345**	—
Net profit	**415,615**	165,200
Net unrealized gain on investments *[note 7]*	**54,665**	18,536
Comprehensive income	**470,280**	183,736

See accompanying notes

Fredericton Convention Centre Inc.

Statement of changes in shareholder's equity

Year ended December 31

	2021	2020
	$	$
Retained earnings, beginning of year	**328,609**	328,771
Net profit from operations for the year	**415,615**	165,200
Transfer to capital replacement reserve *[note 6]*	**(423,252)**	(165,362)
Retained earnings, end of year	**320,972**	328,609
Other comprehensive income, beginning of year	**73,272**	54,736
Other comprehensive income	**54,665**	18,536
Other comprehensive income, end of year	**127,937**	73,272
Capital replacement reserve, beginning of year	**2,819,474**	2,654,112
Capital replacement reserve *[note 6]*	**423,252**	165,362
Capital replacement reserve, end of year	**3,242,726**	2,819,474
Total shareholder's equity, beginning of year	**3,221,356**	3,037,620
Total changes in shareholder's equity	**470,280**	183,736
Total shareholder's equity, end of year	**3,691,636**	3,221,356

See accompanying notes

Fredericton Convention Centre Inc.

Statement of cash flows

Year ended December 31

	2021	2020
	$	$
Operating activities		
Net profit	415,615	165,200
Depreciation	21,999	28,100
Gain on sale of investments	(26,345)	—
Changes in non-cash working capital balances related to operations		
Accounts receivable	91,822	128,608
Prepaid expenses	(11,832)	(1,580)
Accounts payable and accrued liabilities	11,458	(11,063)
Unearned revenue	24,541	(4,220)
Cash provided by operating activities	527,258	305,045
Investing activities		
Purchase of investments	(538,443)	(1,560,435)
Sale of investments	2,128,961	1,511,750
Purchase of property, equipment and intangible assets	—	(1,343)
Cash provided by (used in) investing activities	1,590,518	(50,028)
Net increase in cash during the year	2,117,776	255,017
Cash, beginning of year	823,890	568,873
Cash, end of year	2,941,666	823,890

See accompanying notes

Fredericton Convention Centre Inc.

Notes to financial statements

December 31, 2021

1. Nature of operations

The Fredericton Convention Centre Inc. [the "Company"], a municipal corporation owned by the City of Fredericton, is incorporated under the *New Brunswick Business Corporations Act*. Its principal business activities include management and operations of the Fredericton Convention Centre. The Company is defined as another government organization as per Public Sector Accounting guidelines. Other government organizations are able to apply either Public Sector Accounting Standards ["PSAS"] or International Financial Reporting Standards ["IFRS"]. The Company has elected to apply IFRS as it best meets the users' needs, has commercial-type operations and substantially derives its revenue from these activities.

2. Significant accounting polices

Statement of compliance

These financial statements for the year ended December 31, 2021 have been prepared in accordance with IFRS and interpretations adopted by the International Accounting Standards Board ["IASB"].

Basis of presentation

The financial statements for the Company for the year ended December 31, 2021 were authorized for issue by the Board of Directors on March 25, 2022.

Functional and presentation currency

The financial statements are presented in Canadian dollars, which is the Company's functional currency.

Property, equipment and intangible assets

Property, equipment and intangible assets are recorded at cost, net of accumulated depreciation and accumulated impairment losses, if any. Depreciation is provided using the declining balance method at the following annual rates:

Assets	**Rate**
Computer software	50%
Computer hardware	45%
Décor	30%
Vehicle	30%
Furniture and equipment	20%

The assets' residual values, useful lives and methods of depreciation are reviewed annually and adjusted prospectively if appropriate.

Notes to financial statements

December 31, 2021

Grant income

Grant income is recognised where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

Investments

Investments are stated at market value, which approximates fair value, using published market valuations, where applicable, or market-related determinations.

Bonds and equities are valued using published quotations as at December 31.

Pooled fund investments are valued using the unit value supplied by the pooled fund administrator, which represents the Company's proportionate share of the underlying net assets at fair value determined using closing market prices as at December 31.

Revenue recognition

Revenue from contracts with customers is recognized when the services are rendered, at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services. The Company recognizes revenue to depict the rendering of service to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services by applying the following steps:

- Identify the contract with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations; and
- Recognize revenue when, or as, the Company satisfies a performance obligation.

When a single sales transaction requires the delivery of more than one service [separate performance obligations], the revenue recognition criteria are applied to the separately identifiable components. A component is considered to be separately identifiable if the service delivered has standalone value to that customer and the fair value associated with the product or service can be measured reliably. The amount recognized as revenue for each component is the fair value of the element in relation to the fair value of the arrangement as a whole.

The Company has concluded that revenue from rendering of services should be recognized at the point in time when services are rendered to the customer, generally when the events are occurred.

Notes to financial statements

December 31, 2021

Financial instruments

Initial recognition and measurement

The Company at initial recognition designates its financial assets either as [i] financial assets at fair value through profit or loss ["FVTPL"], or [ii] loans and receivables or as [iii] available for sale. Financial liabilities are classified as [i] fair value through profit or loss, [ii] financial liabilities at amortized cost at year end. All financial instruments are initially measured at fair value plus, in the case of financial assets not recognized at fair value through profit or loss, directly attributable transaction costs.

The Company's financial assets include cash, accounts receivable and due from City of Fredericton. The Company's financial liabilities include accounts payable and accrued liabilities.

Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification, as follows:

[i] Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39, *Financial Instruments: Recognition and Measurement*, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

The Company has not designated any financial assets upon initial recognition as at fair value through profit or loss.

[ii] Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method ["EIR"], less impairment. The losses arising from impairment are recognized in the statement of profit or loss and other comprehensive income in depreciation and expense.

Securities in this category include cash, accounts receivable, and due from City of Fredericton.

[iii] Available for sale

Securities classified as available for sale are non-derivative financial assets that are initially designated as available for sale or that are not classified in the fair value through profit or loss or loans and receivables categories. Gains and losses resulting from changes in fair value, except for impairment losses are recognized in the statement of profit and other comprehensive income under net unrealized gains/(losses) on investments.

Securities in this category include mutual funds and shares of publicly traded companies.

Derecognition

A financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets is derecognized when the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from the asset.

Subsequent measurement of financial liabilities

The subsequent measurement of financial liabilities depends on their classification, as follows:

[i] Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39.

Gains or losses on liabilities held for trading are recognized in the statement of profit or loss and other comprehensive income.

The Company has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

[ii] Financial liabilities at amortized cost

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the statement of profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in other expenses (income) in the statement of profit or loss and other comprehensive income.

Financial liabilities classified in this category include accounts payable and accrued liabilities.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of profit or loss and other comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations [bid price for long positions and ask price for short positions], without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's-length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models.

The fair value of cash, accounts receivable, due from City of Fredericton, accounts payable and accrued liabilities approximate their carrying amount largely due to the short-term maturities of these instruments.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash at hand and bank balances.

Short-term investments are primarily securities issued by Canadian chartered banks with maturities between one and three months. Short-term investments are valued at cost, which approximates their fair value given the short-term nature of these investments.

Unearned revenue

The Company bills customers for events in advance which is deferred until when events are held and revenue is earned.

3. Significant accounting estimates and assumptions

The preparation of the Company's financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts recognized in the financial statements of the Company are discussed below.

Determination of useful lives for property, equipment and intangible assets

The Company has based the determination of the useful lives for its property, equipment and intangible assets on a detailed review of all empirical data for the different asset classes and also used the knowledge of the appropriate operations people to conclude on the useful lives. Furthermore, the Company at least annually updates if the current applied useful lives are still valid for the different asset classes. Any external or internal changes in the Company's environment may result in an impact on the expectation of the useful lives of certain assets and hence a triggering event to reconsider the expectation of the useful lives.

Notes to financial statements

Impairment of financial assets

Impairment exists when the enterprise value of an asset exceeds its fair market value. Fair market value can be measured via recent market transactions or discounted cash flow model. The cash flows are derived from the budget for the next five years. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit ["CGU"] exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

4. Financial risk management

The Company has exposure to credit risk from its use of financial instruments. This note presents information about the Company's exposure to each of these risks and its objectives, policies and procedures for measuring and managing these risks.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors is responsible for developing and monitoring the Company's risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in the market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Directors oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is subject to credit risk with respect to accounts receivable from its customers.

This risk is managed through frequent collection of revenue and the Company's credit evaluation, approval and monitoring processes. A provision for potential credit losses is assessed on an ongoing basis. The Company is not materially exposed to any one individual customer and has applied standard credit practices, which limit the Company's exposure to credit risk. The maximum risk the Company would be exposed to is $6,651 and the average outstanding balance for any one customer is approximately $3,643. There are no expected credit losses provided at year end.

5. Grant income

Since the incorporation of the Company, the City of Fredericton has supported and continues to support the operations of the Company annually by providing financial resources in order to establish a customer base for use of the Company.

The City of Fredericton provided a grant in the amount of $950,000 to the Company during the year [2020 – $950,000].

6. Capital replacement reserve

Monies are set aside in an investment to fund future building, equipment, furniture and fixture capital replacement needs. The capital reserve allotment in 2021 amounts to $423,252 [2020 – $165,362]. The accumulated capital replacement reserve is $3,242,726 in 2021 [2020 - $2,819,474].

7. Investments

Investments as at December 31 are as follows:

	2021		2020	
	Fair Value	**Cost**	**Fair Value**	**Cost**
	$	**$**	**$**	**$**
Cash equivalents	**538,443**	**538,443**	2,025,721	2,025,721
Canadian equities	**347,964**	**235,026**	370,194	311,921
	886,407	**773,469**	2,395,915	2,337,642

Fair value disclosure

Investments are classified in a hierarchy of three levels depending on the inputs used to determine fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs used in determining the fair value. If different levels of inputs are used to measure the fair value of an investment, the classification is based on the lowest level input used. The three levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices [unadjusted] in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly or indirectly; and
Level 3 – Inputs for the assets or liabilities that are not based on observable market data.

Notes to financial statements

December 31, 2021

The following fair value hierarchy table presents the Company's assets measured at fair value on a recurring basis as at December 31, 2021. All of the Company's assets are Level 1:

	2021	
	Level 1	**Total fair value**
	$	**$**
Cash equivalents	**538,443**	**538,443**
Canadian equities	**347,964**	**347,964**
	886,407	**886,407**

The following fair value hierarchy table presents the Company's assets measured at fair value on a recurring basis as at December 31, 2020:

	2020	
	Level 1	**Total fair value**
	$	**$**
Cash equivalents	2,025,721	2,025,721
Canadian equities	370,194	370,194
	2,395,915	2,395,915

8. Related party transaction

The Company has a payable outstanding at year-end of $185 [2020 – $173] owed to the City of Fredericton for rendering of goods and services. The Company has a receivable outstanding at year-end for $837 [2020 – nil] from the City of Fredericton for rendering of goods and services. Related party transactions are recorded at their exchange amount.

The City of Fredericton provided a grant in the amount of $950,000 to the Company during the year [2020 – $950,000].

Schedule of property, equipment and intangible assets

For the year ended December 31

	2021						2020
	Computer software	Computer hardware	Décor	Vehicle	Furniture and equipment	Total	Total
	$	$	$	$	$	$	$
Cost							
Balance, beginning of year	77,333	67,079	7,444	9,490	321,927	483,273	481,930
Add:							
Net additions during the year	—	—	—	—	—	—	1,343
Balance, end of year	77,333	67,079	7,444	9,490	321,927	483,273	483,273
Accumulated amortization							
Balance, beginning of year	76,387	60,977	7,089	9,165	233,799	387,417	359,317
Add:							
Amortization during the year	946	2,747	355	325	17,626	21,999	28,100
Balance, end of year	77,333	63,724	7,444	9,490	251,425	409,416	387,417
Net book value	—	3,355	—	—	70,502	73,857	95,856

During the year, the Company carried out a review of the recoverable amount of property, equipment and intangible assets and there was no impairment identified [2020 – nil].