Grant Thornton

Financial statements

Standardbred Canada
(Incorporated under the Animal Pedigree Act)

October 31, 2015

Contents

Independent Auditors' Report

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To the Members of
Standardbred Canada

We have audited the accompanying financial statements of Standardbred Canada, which comprise the statement of financial position as at October 31, 2015, and the statements of operations, changes in net assets and cash flows for the year ended October 31, 2015, 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 accounting standards for not-for-profit organizations, 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 audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Standardbred Canada as at October 31, 2015, and the results of its operations and its cash flows for the year ended October 31, 2015 in accordance with Canadian accounting standards for not-for-profit organizations.

Mississauga, Canada
February 12, 2016

Chartered Professional Accountants
Licensed Public Accountants

Standardbred Canada
Statement of Operations

For the year ended October 31		**2015**		2014
Revenue				
Trot magazine	**$**	**938,612**	$	885,067
Membership services		**879,855**		919,805
Computer services		**816,946**		809,873
Membership dues and licensing fees		**713,071**		760,938
Track fees		**685,924**		698,437
Horse sales and pedigree sales		**308,077**		318,394
Identification		**195,338**		197,992
Stake and administrative services		**146,475**		148,401
Rent		**77,819**		77,819
Investment income		**37,257**		53,514
Miscellaneous income		**74,261**		75,453
		4,873,635		4,945,693
Expenses				
General and administrative		**1,663,132**		1,510,285
Information technology		**870,439**		1,019,082
Customer services		**540,377**		533,942
Trot magazine		**537,577**		502,593
Occupancy costs		**267,149**		245,873
Identification		**192,168**		205,738
Member insurance		**186,634**		199,762
Horse sales		**162,137**		184,251
Industry marketing and business development		**136,366**		106,205
Sales and stakes		**114,551**		93,058
Travel and meetings		**76,375**		84,326
Industry and government relations		**40,691**		23,789
		4,787,596		4,708,904
Excess of revenue over expenses	**$**	**86,039**	$	236,789

See accompanying notes to the financial statements.

Standardbred Canada

Statement of Changes in Net Assets

For the year ended October 31

	Unrestricted	Invested in property and equipment and software	Internally restricted	2015 Total	2014 Total
Net assets - beginning of year	$ 1,537,161	$ 2,481,471	$ 300,000	**$ 4,318,632**	$ 4,081,843
Excess of revenue over expenses	182,570	(96,531)	-	**86,039**	236,789
Transfer for purchase of capital and intangible assets	(261,123)	261,123	-	**-**	-
Net assets - end of year	$ 1,458,608	$ 2,646,063	$ 300,000	**$ 4,404,671**	$ 4,318,632

See accompanying notes to the financial statements.

Standardbred Canada
Statement of Financial Position

October 31	**2015**	2014
Assets		
Current		
Cash and cash equivalents	**$ 1,750,653**	$ 1,496,997
Investments (Note 3)	**1,122,200**	913,704
Receivables	**588,584**	604,729
Supplies and prepaid expenses	**57,849**	89,384
	3,519,286	3,104,814
Investments (Note 3)	**302,191**	599,888
Lease inducement (Note 4)	**15,448**	27,034
Tangible capital assets (Note 5)	**1,776,406**	1,843,160
Intangible assets (Note 6)	**869,657**	638,311
	$ 6,482,988	$ 6,213,207

Liabilities		
Current		
Accounts payable and accrued liabilities (Note 7)	**$ 603,710**	$ 374,794
Due to consignors (Note 8)	**804,907**	837,259
Stake programs	**169,324**	167,458
Deferred revenue	**111,267**	108,513
Deferred membership revenue	**389,109**	406,551
	2,078,317	1,894,575
Net assets		
Unrestricted	**1,458,608**	1,537,161
Invested in property and equipment and software	**2,646,063**	2,481,471
Internally restricted - reserve for computer replacement	**300,000**	300,000
	4,404,671	4,318,632
	$ 6,482,988	$ 6,213,207

On behalf of the Board of Directors

____________________________ Director ____________________________ Director

See accompanying notes to the financial statements.

Standardbred Canada
Statement of Cash Flows

For the year ended October 31		2015		2014
Increase (decrease) in cash and cash equivalents				
Cash from operations				
Excess of revenue over expenses	**$**	**86,039**	$	236,789
Non-cash items				
Unrealized (gain) loss on investments		**(1,923)**		(8,816)
Amortization – tangible capital assets		**94,004**		125,699
Amortization – intangible assets		**2,527**		3,928
Amortization – lease inducement		**11,586**		11,586
Impairment – intangible assets		**-**		125,000
Net change in non-cash operating working capital				
Receivables		**16,145**		2,666
Supplies and prepaid expenses		**31,535**		24,448
Accounts payable and accrued liabilities		**228,916**		(26,980)
Stake programs		**1,866**		(191,481)
Due to consignors		**(32,352)**		173,662
Deferred revenue		**2,754**		859
Deferred membership revenue		**(17,442)**		(33,177)
		423,655		444,183
Financing				
Repayment of term loans		**-**		(12,027)
Investing				
Purchase of investments (net)		**91,124**		102,346
Purchase of tangible capital assets		**(27,250)**		(32,066)
Purchase and development of intangible capital assets		**(233,873)**		(104,418)
		(169,999)		(34,138)
Increase in cash and cash equivalents		**253,656**		398,018
Cash and cash equivalents, beginning of year		**1,496,997**		1,098,979
Cash and cash equivalents, end of year	**$**	**1,750,653**	$	1,496,997

See accompanying notes to the financial statements.

1. Nature of operations

Standardbred Canada ("the Association") was incorporated under the Animal Pedigree Act to be the official registry and recordkeeping body and a national leader that informs, inspires, drives and records information on standardbred racing and breeding for the standardbred industry in Canada.

Standardbred Canada promotes and protects the standardbred breed and the persons who own, breed or race standardbred horses through:

a) The registration and identification of standardbred horses and the keeping of pedigrees;
b) The maintenance, preservation and dissemination of records regarding the breeding and racing of standardbred horses; and
c) The promotion of harness racing and standardbred horses.

The Association is a not-for-profit organization and is exempt from income taxes under section 149(1) of the Income Tax Act.

2. Summary of significant accounting policies

Basis of accounting

The Association follows accounting policies that conform with Canadian accounting standards for not-for-profit organizations. The following is a summary of significant accounting policies adopted by the Association in the preparation of the financial statements.

The Association controls another not-for-profit organization – Peel Condominium Corporation No. 467 ("PCC"). The Association is the sole director of PCC and only significant source of revenue of PCC.

The Corporation has decided not to consolidate PCC, and will instead provide the required disclosures (Note 12) in accordance with Chartered Professional Accountants ("CPA") Canada Handbook Section 4450.

Revenue recognition

Membership fees are recorded as revenue of the fiscal year to which they relate. Deferred revenue represents membership fees which have been received but not earned. The membership year is coincidental with the member's birth date.

Horse sales represent commission and entry fees earned by the Association on the sale of standardbred horses. The Association is an agent for these sales and does not act as principal. In its role as agent, the Association collects proceeds from the sales and remits net proceeds to the consignor.

2. Summary of significant accounting policies (continued)

Revenue recognition (continued)

Investment income comprises interest, dividends, and realized and unrealized gains (losses).

Other revenues are recognized when services have been performed, amounts can be reasonably estimated, and collection is reasonably assured.

Financial instruments – recognition and measurement

Initial measurement

The Association's financial instruments are measured at fair value when issued or acquired. For financial instruments subsequently measured at cost or amortized cost, fair value is adjusted by the amount of the related financing fees and transaction costs. Financing fees and transaction costs relating to financial instruments that are measured subsequently at fair value are recognized in operations in the year in which they are incurred.

Subsequent measurement

At each reporting date, the Association measures its financial assets and liabilities at cost or amortized cost (less impairment in the case of financial assets), except for equities, which consist of equities quoted in an active market and must be measured at fair value, and stake programs liabilities, which the Association has designated to measure at fair value. The Association uses the effective interest rate method to amortize any premiums, discounts, transaction fees and financing fees to the statement of operations. The financial instruments measured at amortized cost are cash and cash equivalents, investment in guaranteed investment certificates and treasury bills, receivables, accounts payable, and due to consignors.

For financial assets measured at cost or amortized cost, the Association regularly assesses whether there are any indications of impairment. If there is an indication of impairment, and the Association determines that there is a significant adverse change in the expected timing or amount of future cash flows from the financial asset, the Association recognizes an impairment loss in the statement of operations. Any reversals of previously recognized impairment losses are recognized in operations in the year the reversal occurs.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and short-term investments which are readily convertible to cash and have maturity dates three months or less from the date of acquisition.

Lease inducement

Deferred lease inducement represents cash paid to a tenant for the benefit of the tenant pursuant to a lease agreement for premises owned by the Association. The lease inducement is amortized to occupancy costs over the term of the lease.

2. Summary of significant accounting policies (continued)

Tangible and intangible capital assets and amortization

Tangible capital assets are stated at cost less accumulated amortization. Amortization is provided at rates designed to charge to operations the cost of tangible capital assets, on a straight-line basis over the estimated useful lives, as follows:

Building	- 40 years
Building improvements	- 10 years
Computer equipment	- 3 years
Vehicles	- 5 years
Other equipment	- 3 to 10 years
Leasehold Improvements	- 5 years

Intangible assets are stated at cost less accumulated amortization. Amortization is provided at rates designed to charge to operations the cost of intangible capital assets, on a straight-line basis over the estimated useful life of the asset, as follows:

Purchased software	- 3 years
Internally generated software	- 7 years

The Association has chosen to capitalize software development costs that meet the criteria for capitalization as an internally generated intangible asset. Capitalization of software under development will cease when the software is substantially complete and available for use. Amortization will commence upon initial utilization of the software.

When a capital asset no longer has any long-term service potential to the Association, the excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations. Any write-downs recognized are not reversed.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate in effect at the balance sheet date. Revenue and expenses denominated in foreign currencies are translated at the exchange rate in effect on the date of each transaction. Foreign currency gains or losses are included in the determination of the excess of revenue over expenses for the year.

Estimates and measurement uncertainty

The preparation of financial statements 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 reporting period. Items requiring significant estimates and subject to measurement uncertainty include determination of the allowance for doubtful accounts receivable, useful lives and impairment of tangible and intangible assets. By their nature, these estimates are subject to measurement uncertainty. Actual results could differ from those estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the statement of operations in the period in which they become known.

3. Investments

Short-term investments consist of equity, guaranteed investment certificates (GICs) and treasury bills which bear interest at rates ranging from 1.46% to 2.10% (2014 - 1.57% to 1.95%) and have maturities greater than three months and less than one year.

Long-term investments consist of GICs and treasury bills, which bear interest at rates ranging from 1.66% to 1.95% (2014 –1.8% to 2.0%) and have maturities of greater than one year.

	2015	2014
GICs and treasury bills	**$ 1,254,303**	$ 1,349,187
Canadian equity securities	**170,088**	164,405
	1,424,391	1,513,592
Less: short-term portion	**1,122,200**	913,704
	$ 302,191	$ 599,888

4. Lease inducement

During 2012, the Association made a payment to a tenant for leasehold improvements for the benefit of the tenant and are not considered to be improvements to the building. The lease inducement is recorded at a cost of $57,930 (2014 - $57,930) less accumulated amortization of $42,482 (2014 - $30,896).

5. Tangible capital assets

	Cost	Accumulated Amortization	**2015 Net Book Value**	2014 Net Book Value
Land	$ 813,629	$ -	**$ 813,629**	$ 813,629
Building and building improvements	2,231,048	1,397,109	**833,939**	906,069
Computer equipment	1,648,884	1,622,964	**25,920**	37,974
Vehicles	72,008	47,996	**24,012**	-
Other equipment	1,150,051	1,071,145	**78,906**	85,488
Leasehold improvements	282,083	282,083	**-**	-
	$ 6,197,703	$ 4,421,297	**$ 1,776,406**	$ 1,843,160

6. Intangible assets

Software is recorded at cost of $1,019,566 (2014 - $785,692) less accumulated amortization of $149,909 (2014 - $147,381).

Included in software is software under development costs of $868,065 (2014 - $634,761). During fiscal 2014, the Association recorded impairment of software under development costs of $125,000 for certain costs incurred that were determined to no longer have any long-term service potential to the Association due to a change in the software development vendor. The impairment charge was recorded in information technology expenses in the statement of operations. Amortization of the software costs will commence upon utilization of the software.

7. Accounts payable and accrued liabilities

	2015	2014
Accounts payable	**$ 168,960**	$ 87,686
Accrued liabilities	**334,970**	166,265
Government remittances payable	**99,780**	120,843
	$ 603,710	$ 374,794

8. Due to consignors

Of the total balance due to consignors, $795,505 (2014 - $799,180) has been collected from third parties and is included in cash and cash equivalents. The remaining balance of $9,402 (2014 - $38,079) due to consignors has not yet been collected and is included in receivables.

9. Credit facility agreement

The Association has an operating facility totalling $250,000, which bears interest at the bank's prime lending rate plus 0.25%, is unsecured and is repayable on demand. At October 31, 2015, $Nil (2014 – $Nil) was drawn on this facility.

10. Financial instruments

Fair value

The carrying amounts of cash and cash equivalents, investments in GICs and treasury bills, receivables, accounts payables and accrued liabilities, due to consignors and stake programs liabilities approximate fair value because of the short term maturity of these financial instruments.

Investments that have been recorded at quoted market prices, which represent fair value, are disclosed in Note 3.

10. Financial instruments (continued)

Risk management

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. The Association's financial instruments are primarily exposed to credit, market and liquidity risks. The Association has formal policies and procedures that establish target asset mix. The Association's policies also require diversification of investments within categories, and set limits on exposure to individual investments.

Credit risk

Financial instruments that potentially subject the Association to concentrations of credit risk consist primarily of cash and cash equivalents, investments and accounts receivable.
Cash and cash equivalents consist of money market funds with a major Canadian financial institution and deposits with a major Canadian banking institution which may exceed federally insured limits. Investments consist of GICs and treasury bills, which carry an investment grade credit rating and are administered by a major Canadian financial institution.

Receivables are due from a large membership and customer base, which is geographically dispersed. The Association evaluates its members' and customers' financial condition and limits the amount of credit extended when deemed necessary. The Association utilizes an allowance for doubtful accounts to record potential credit losses associated with its trade receivables, the balance of which was $62,920 at October 31, 2015 (2014 - $58,420). Credit losses to date have been within management's expectations.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency, interest rate and other price risks.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Association maintains a bank account denominated in U.S. funds. As such, it is subject to foreign currency risk due to fluctuations in U.S./Canadian exchange rates. Cash and cash equivalents denominated in U.S. funds of $110,188 (2014 - $143,690) are translated at 1.3075 (2014 – 1.1271).

Interest rate risk arises from the possibility that changes in interest rates will affect the value of money market funds held by the Association. The Association manages this risk by holding a large portion of its securities in investment grade GICs and treasury bills. The Association invests in Canadian equities which are not subject to interest rate risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Association manages this risk by holding a large portion of its portfolio in investment grade Canadian equities.

Liquidity risk

Liquidity risk is the risk the Association will encounter difficulties in meeting its financial liability obligations. The Association manages its liquidity risk through cash management.

11. Capital management

The Association's main objective when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide services to members and benefits for other stakeholders.

The Association sets the amount of capital in proportion to risk. The Association manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Association may adjust the timing of expenditures, or sell assets to meet obligations as they come due, particularly obligations relating to Canadian Breeders Championship and other stake events.

Because computer functionality is fundamental to the Association's survival, the Association maintains a $300,000 internally restricted reserve for computer replacement.

12. Peel Condominium Corporation No. 467 (PCC) and related party transactions

PCC is a separate not-for-profit corporation responsible for the management and maintenance of the incumbent areas (such as the driveway and exterior landscaping) of the head office building, of which both units are owned by Standardbred Canada.

Throughout the year, Standardbred Canada was the sole director of PCC. PCC was wound up as at October 31, 2015.

The financial statements of Standardbred Canada do not include the financial activities of PCC. Financial statements of PCC are available upon request. Financial summaries of PCC as at October 31, 2015 and 2014 and for the years ended October 31, 2015 and 2014 are as follows:

Peel Condominium Corporation	**2015**	2014
Statement of financial position		
Total assets	**$ 11,373**	$ 57,561
Total liabilities	**$ 11,373**	$ 16,674
Total fund balances	**$ -**	$ 40,887
Statement of operations		
Total revenues	**$ 156,000**	$ 99,000
Total expenses	**158,678**	141,387
Deficiency of revenue over expenses	**$ (2,678)**	$ (42,387)
Statement of cash flows		
Cash used in operations	**$ (3,027)**	$ (40,285)
Decrease in cash equivalents	**$ (41,217)**	$ (25,065)

12. Peel Condominium Corporation No. 467 (PCC) and related party transactions (continued)

During the year, Standardbred Canada paid $156,000 (2014 - $99,000) in condominium fees to PCC which has been included in occupancy costs in the statement of operations and received $14,400 (2014 - $14,400) with respect to management and administration fees which has been included in miscellaneous income in the statement of operations.

Included in receivables is $11,299 owing from PCC.

13. Comparative amounts

Certain comparative amounts have been reclassified from those previously presented to conform to the presentation of the 2015 financial statements.