

Calgary Film Centre Ltd.
Report to the Board of Directors

For the Year Ended December 31, 2017

For presentation at the Board of Directors meeting March 16, 2018

March 16, 2018

Members of the Board of Directors of Calgary Film Centre Ltd.

Dear Sirs and Mesdames:

We are pleased to submit to you this report for discussion of our audit of the financial statements of Calgary Film Centre Ltd. (the "Centre") as at December 31, 2017 and for the year then ended. In this report we cover those significant matters which, in our opinion, you should be aware of as members of the Board of Directors.

We have substantially completed our audit of the financial statements of the Centre which has been carried out in accordance with Canadian generally accepted auditing standards.

Unless unforeseen complications arise, our Audit Report will provide an unqualified opinion to the Board of Directors of the Centre. A draft copy of our proposed Independent Auditors' Report is attached at the end of this report.

The matters raised in this and other reports that will flow from the audit are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for reporting all risks in your business or all control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

We would like to express our appreciation for the excellent cooperation we have received from Management and employees with whom we worked.

We appreciate having the opportunity to meet with you and to respond to any questions you may have about our audit, and to discuss any other matters that may be of interest to you.

Sincerely,

MNP LLP

Chartered Professional Accountants

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INTRODUCTION

As auditors, we report to the members on the results of our examination of the financial statements of Calgary Film Centre Ltd. (the "Centre") as at and for the year ended December 31, 2017. The purpose of this Audit Findings Report is to assist you, as members of the Board of Directors, in your review of the results of our audit. To facilitate in your understanding of our findings, Appendix A to this report summarizes our audit process.

Our report will discuss the status of our engagement, as well as communicate to you significant audit, accounting and reporting matters arising from our procedures. We hope that this report is of assistance to you, and we look forward to discussing our findings and answering your questions.

ENGAGEMENT STATUS

We have completed our audit of the financial statements of the Centre and are prepared to sign our Auditors' Report subsequent to completion of the following procedures:

- Receipt of the remaining outstanding legal confirmations;
- Receipt of the signed management representation letter;
- Discussion of subsequent events with the Board of Directors;
- The Board of Directors' review and approval of the financial statements.

We expect to have the above procedures completed and to be able to release our Audit Report on March 16, 2018. Our draft report, which will provide an unqualified opinion, is attached at the end of this report. Our report will include an emphasis of matter paragraph with respect to the material uncertainty of the Centre to continue as a going concern.

SIGNIFICANT AUDIT, ACCOUNTING AND REPORTING MATTERS

CHANGES FROM AUDIT SERVICE PLAN

We previously presented our proposed Audit Service Plan to you on September 21, 2017. Over the course of our audit, the following deviations were made from this plan:

- Materiality was proposed at \$125,000 based on 3% of net assets. Upon receiving the finalized trial balance, materiality was decreased to \$104,000 based on 3% of net assets.

AREAS OF AUDIT EMPHASIS

The following lists the key areas of our audit emphasis for the Centre:

- Property and equipment;
- Restricted cash, deferred contribution and deferred contributions related to property and equipment;
- Bank indebtedness;
- Recognition of revenue;
- Expenses; and
- Going concern.

Detailed information on Areas of Audit Emphasis is included as Appendix B to this report.

FINAL MATERIALITY

Materiality is a concept used to assess the significance of misstatements or omissions that are identified during the audit and is used to determine the level of audit testing that is carried out. The scope of our audit work is tailored to reflect the relative size of operations of the Centre, and is affected by our assessment of materiality and audit risk.

Final materiality used for our audit was \$104,000 for December 31, 2017 and was based on a percentage of net assets. Our threshold for differences reported to the Board was \$5,200.

SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

Our audit process focuses on understanding the controls utilized in Management's reporting systems to the extent necessary to identify overall and specific financial reporting risks. This risk assessment allows us to concentrate our audit procedures on high risk areas and, where possible, place reliance on controls within the financial reporting system to reduce the extent of our testing.

It is important to note that our assessment was not, nor was it intended to be, sufficient to comment or conclude on the sufficiency of internal controls.

We are required under Canadian generally accepted auditing standards to communicate all significant deficiencies identified during an audit to the Board of Directors on a timely basis. However, we may not be aware of all significant deficiencies that do, in fact, exist.

While our review of controls was not sufficient to express an opinion as to their effectiveness or efficiency, no significant deficiencies in internal control have come to our attention.

DIFFICULTIES ENCOUNTERED

No significant limitations were placed on the scope or timing of our audit.

IDENTIFIED OR SUSPECTED FRAUD

Due to the inherent limitations of an audit and the nature of fraud, including attempts at concealment through forgery or collusion, an audit conducted in accordance with Canadian generally accepted auditing standards cannot be relied upon to detect fraud.

While our audit cannot be relied upon to detect all instances of fraud, no incidents of fraud, or suspected fraud, came to our attention in the course of our audit.

IDENTIFIED OR SUSPECTED NON-COMPLIANCE WITH LAWS AND REGULATIONS

Nothing has come to our attention that would suggest any non-compliance with laws and regulations that would have a material effect on the financial statements.

MATTERS ARISING IN CONNECTION WITH RELATED PARTIES

All related party transactions identified were in the normal course of business and accounted for appropriately in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations.

GOING CONCERN

During the course of our audit we have identified the following issues which may impact the Centre's ability to continue as a going concern:

- It was noted during our audit that the Centre was having difficulty managing its cash flow to meet current obligations due to the Studio's low occupancy;
- The Centre's continuation as a going concern is dependent upon the continued support of related parties, generating excess revenue over expenses through increased occupancy, and the ability to generate sufficient cash from operations;
- Management is reviewing its options to reduce the debt carried by the Centre, and with the support of related parties, it will be able to continue operating as a going concern; and
- The financial statements do not reflect any adjustments in the carrying values of the assets and liabilities, the reported revenue and expenses and the statement of financial position classifications used that would be necessary if the going concern assumption were not appropriate should the Centre not be able to continue on in the normal course of business.

As a result of the above circumstances, we are of the opinion that the going concern assumption is appropriate in preparation of the financial statements. The circumstances identified are disclosed adequately in Note 2 of the financial statements and an emphasis of matter paragraph has been added to the Auditors' Report.

AUDITORS' VIEWS OF SIGNIFICANT ACCOUNTING PRACTICES

The application of Canadian Public Sector Accounting Standards for Not-For-Profit Organizations allows and requires the Centre to make accounting estimates and judgments regarding accounting policies and financial statement disclosures.

As auditors, we are uniquely positioned to provide open and objective feedback regarding your Centre's accounting practices, and have noted the following items during the course of our audit that we wish to bring to your attention.

Accounting Policies

- The accounting policies used by the Centre are appropriate and have been consistently applied.

Accounting Estimates

Allowance for Doubtful accounts

- Provision for doubtful accounts receivable is based on individual account balances at the time that all other collection efforts have failed. At December 31, 2017 there was no provision for doubtful accounts receivable.

Amortization of property and equipment

- Buildings and furniture, fixtures and equipment are amortized using the straight-line method at rates intended to amortize the cost of assets over their estimated useful lives. The rates range from two years to 25 years. Land is appropriately not amortized.

Impairment assessment

- No write-downs considered necessary by Management for financial assets, property and equipment or intangible assets.
- MNP confirmed with Management that there was no change to the manner that the Centre's property and equipment and intangible assets are used. These assets continue to be used for the purpose of providing a world-class facility for filming.
- As the assets continue to contribute to the Centre's ability to provide services, no adjustment to their carrying amounts is required.

Financial Statement Disclosures

The disclosures made in the notes to the financial statements appear clear, neutral and consistent with our understanding of the entity and the amounts presented in the financial statements.

MATTERS ARISING FROM DISCUSSIONS WITH MANAGEMENT

We would like to formally acknowledge the cooperation and assistance we received from Management and staff of the Centre and Calgary Economic Development.

There were no significant matters discussed, or subject to correspondence, with Management that in our judgment need be brought to your attention.

SIGNIFICANT DIFFERENCES

No differences were proposed to Management with respect to the December 31, 2017 financial statements.

MODIFICATIONS TO THE INDEPENDENT AUDITORS' REPORT

As discussed earlier, our independent auditors' report will provide an unqualified opinion to the Board of Directors. Without modifying our opinion an emphasis of matter paragraph was added.

The emphasis of matter paragraph draws attention to the going concern of the Centre.

MANAGEMENT REPRESENTATIONS

We have requested certain written representations from Management, which represent a confirmation of certain oral representations given to us during the course of our audit.

This letter, provided by Management, has been included as additional material to this report.

AUDITOR INDEPENDENCE

We confirm to the Board of Directors that we are independent of the Centre. Our letter to the Board of Directors discussing our independence is included under separate cover from this report.

APPENDIX A – MNP Audit Process

Our audit was carried out in accordance with Canadian generally accepted auditing standards, and included a review of all significant accounting and management reporting systems, with each material year end balance, key transaction and other events considered significant to the financial statements considered separately.

Our audit process focused on understanding the controls utilized in Management's reporting systems to the extent necessary to identify overall and specific financial reporting risks. This risk assessment enabled us to concentrate our audit procedures on the areas where differences were most likely to arise. Our assessment was not, nor was it intended to be, sufficient to conclude on the effectiveness or efficiency of internal controls.

During the course of our audit, we have:

- Examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessed the accounting principles used and significant estimates made by Management;
- Obtained an understanding of the Centre and its environment, including Management's internal controls (regardless of whether we relied on them for the purpose of the audit), sufficient to identify and assess the risks of material misstatement of the financial statements and to design and perform audit procedures;
- Reviewed and assessed those accounting systems deemed necessary to support our audit opinion;
- Evaluated the overall financial statement presentation;
- Performed a subsequent events review with Management;
- Reviewed and assessed the status of contingencies, commitments and guarantees;
- Reviewed and assessed exposure to environmental liabilities.

We have obtained written representations from Management, included as additional materials following this report, in order to confirm oral representations given to us and reduce the possibility of misunderstanding. Specifically, we have obtained written confirmation of significant representations provided on matters that are:

- Directly related to items that are material, either individually or in the aggregate, to the financial statements;
- Not directly related to items that are material to the financial statements, but are significant, either individually or in the aggregate, to the engagement; and
- Matters relevant to Management judgments or estimates that are material, either individually or in the aggregate, to the financial statements.

APPENDIX B – Areas of Audit Emphasis

Property and equipment

MNP examined amortization for the year ended December 31, 2017 to ensure the expense was accurate. MNP also examined repairs and maintenance expense accounts for the year to determine whether there were any material items which should have been capitalized.

We have concluded that property and equipment, accumulated amortization, and amortization have been reasonably stated at December 31, 2017.

Restricted cash, deferred contribution and deferred contributions related to property and equipment

The Centre had received contributions for the development, operations and programming of the Calgary Film Studio and received contributions for the construction of the Centre.

MNP reviewed supporting documents for the restricted cash fund to confirm the amounts were spent in accordance with the terms of the agreements.

We have concluded that the restricted cash and related deferred contribution and deferred contributions related to property and equipment have been reasonably stated as at December 31, 2017.

No issues were noted during testing.

Bank indebtedness

The Centre has debt of \$12.3M as at December 31, 2017 (2016 - \$12.6M).

MNP confirmed the loan balances with TD Canada Trust and recalculated the financial covenants and agreed with management's assessment that the debt service coverage ratio is in breach. MNP obtained a waiver from TD Canada Trust stating that it has no intention to demand repayment as of the date of this report.

We have concluded that the bank indebtedness has been reasonably stated as at December 31, 2017.

Recognition of revenue

The Centre recognized \$1.7M in revenue during the year (2016 - \$1.3M). The increase is to an increase in rental revenue and an increase in the amount of deferred capital contributions recognized.

MNP agreed a sample of revenue transactions to supporting documents to ensure amounts had occurred and were accurate.

The Centre follows the deferral method of accounting for contributions. Restricted contribution are recognized as revenue in the year in which the related expense are incurred. Contributions for the purchase of property and equipment are deferred and recognized on the same basis as amortization expense of the related asset. Unrestricted contributions are recognized as revenue when received or receivable.

MNP tested a sample of amounts recorded during the year to signed agreements to ensure the revenue was being appropriately recorded in relation to the Centre's revenue recognition policy. These were also verified to payments received to ensure the Centre is collecting on its agreements.

We have concluded that revenue has been reasonably stated as at December 31, 2017.

APPENDIX B – Areas of Audit Emphasis *(continued from previous page)*

Expenses

The Centre incurred \$2.5M in expenses during the year (2016 - \$1.8M), The increase related to amortization of the Centre's property and equipment, interest on the bank indebtedness, and grants paid for Project Lab.

MNP agreed a sample of expense transactions to supporting documents to ensure amounts were complete, had occurred, and were accurate.

We have concluded that expenses are reasonably stated for the year ended December 31, 2017.

Going concern

The financial statements of the Centre have been prepared on a going concern basis. The going concern basis of presentation assumes the Centre will continue operations for the foreseeable future and will be able to realize its assets and fulfill its liabilities and commitments in the normal course of business.

The Centre's continuation as a going concern is dependent upon the continuing support of its related parties, generating excess revenue over expenses through increased occupancy, and the ability to generate sufficient cash from operations.

MNP reviewed Management's plan of action and cash flow projections to ensure that it was reasonable to support the going concern basis. MNP reviewed the financial statement disclosure in detail to ensure that all required disclosures were included.

We have concluded that the going concern assumption is appropriate in the preparation of the financial statements.

Independent Auditors' Report

To the Board of Directors of Calgary Film Centre Ltd.:

We have audited the accompanying financial statements of Calgary Film Centre Ltd., which comprise the statement of financial position as at December 31, 2017, and the statements of operations, changes in net assets 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 Public Sector 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.

Auditors' 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 auditors' 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 Calgary Film Centre Ltd. as at December 31, 2017 and the results of its operations and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which indicates that the future funding for the Calgary Film Centre Ltd. is uncertain. This condition indicates the existence of a material uncertainty that may cast significant doubt about the Calgary Film Centre Ltd.'s ability to continue as a going concern.

Calgary, Alberta

Chartered Professional Accountants

March 16, 2018

MNP LLP
1500, 640 - 5th Avenue SW
Calgary, Alberta T2P 3G4

To Whom It May Concern:

In connection with your audit of the financial statements of Calgary Film Centre Ltd. (the "Centre") as at December 31, 2017 and for the year then ended, we hereby confirm to the best of our knowledge and belief, the following representations made to you during the course of your audit.

We understand that your audit was made in accordance with Canadian generally accepted auditing standards. Accordingly, the audit included an examination of the accounting system, controls and related data, and tests of the accounting records and such other auditing procedures as you considered necessary in the circumstances, for the purpose of expressing an opinion on the financial statements. We also understand that such an audit is not designed to identify, nor can it necessarily be expected to disclose, misstatements, noncompliance with laws and regulations, fraud or other irregularities, should there be any.

Certain representations in this letter are described as being limited to matters that are material. An item is considered material, regardless of its monetary value, if it is probable that its omission from or misstatement in the financial statements would influence the decision of a reasonable person relying on the financial statements.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated September 13, 2017, for the preparation and fair presentation of the Centre's financial statements in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations. We believe these financial statements are complete and present fairly, in all material respects, the financial position of the Centre as at December 31, 2017 and the results of its operations and its cash flows, in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations.
2. All transactions have been recorded in the accounting records and are reflected in the financial statements, and are reported in the appropriate period.
3. We acknowledge that we are responsible for the accounting policies followed in the preparation of the Centre's financial statements. Significant accounting policies, and any related changes to significant accounting policies, are disclosed in the financial statements. The selection of accounting policies is appropriate in accordance with the requirements of Canadian Public Sector Accounting Standards for Not-for-Profit Organizations, and are applied consistently throughout the financial statements.
4. We have disclosed to you all significant assumptions used in making accounting estimates and judgments, and believe they are reasonable.
5. We are aware of and concur with the contents and results of the attached journal entries prepared by you, and accept responsibility for the financial statement effects of the entries.
6. We believe the effects of those uncorrected financial statement differences aggregated by you during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
7. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Canadian Public Sector Accounting Standards for Not-for-Profit Organizations.

8. All events or transactions that have occurred subsequent to the balance sheet and for which Canadian Public Sector Accounting Standards for Not-for-Profit Organizations require adjustment or disclosure have been adjusted or disclosed appropriately in the financial statements.
9. All plans or intentions that may affect the carrying value or classification of assets and liabilities are appropriately reflected in the financial statements in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations.
10. All liabilities, both known and contingent, requiring recognition or disclosure in the financial statements in accordance with the requirements of Canadian Public Sector Accounting Standards for Not-for-Profit Organizations have been adjusted or disclosed as appropriate.
11. All outstanding and possible claims, whether or not they have been discussed with legal counsel, have been disclosed to you and are appropriately reflected in the financial statements.
12. All assets, wherever located, to which the Centre had satisfactory title at the year-end, have been fairly stated and recorded in the financial statements. The assets are free from hypothecation, liens and encumbrances, except as noted in the financial statements. We have disclosed the nature and carrying amounts of any assets pledged as collateral. All assets of uncertain value, and restrictions imposed on assets, are appropriately reported in the financial statements.
13. All aspects of laws, regulations or contractual agreements, including non-compliance, are appropriately reflected in the financial statements.
14. All restricted cash has been appropriately designated and separated from operating funds.
15. Accounts and contributions receivable are correctly described in the records and represent valid claims as at December 31, 2017. An appropriate allowance has been made for losses from uncollectible accounts and for costs or expenses that may be incurred with respect to sales made or services rendered.
16. All charges to property and equipment and intangible assets represent capital expenditures. No expenditures of a capital nature were charged to operations of the Centre. Depreciation of property and equipment and intangible assets has been recorded according to our best estimates of their useful lives. All events or circumstances giving rise to impairments are appropriately reflected in the financial statements.
17. All long-term debt has been appropriately recorded in the financial statements. All payments and accrued interest has been accounted for. The current portion of long-term debt is appropriately classified.
18. Revenue has been recognized only where sales have been made and items delivered, or services rendered, and the amounts have been collected or are collectible. Revenues do not include any amounts arising from consignment sales or from any other transaction from which the Centre is not entitled to the proceeds.
19. We have identified all financial instruments, including derivatives, and hedging relationships. These have been appropriately recorded and disclosed in the financial statements in accordance with the requirements of Canadian Public Sector Accounting Standards for Not-for-Profit Organizations.

Information provided

1. We have responded fully to all inquiries made to us and have made available to you:
 - A complete record of all financial records that are relevant to the preparation and presentation of the financial statements, related data and minutes of the meetings of members and board of directors held throughout the year to the present date as well as summaries of recent meetings for which minutes have not yet been prepared;
 - Additional information that you have requested from us for the purpose of your audit;
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. We acknowledge management's responsibility for the design, implementation and operation of controls that have been designed to prevent and detect fraud.
3. We have assessed the risk that the financial statements may be materially misstated as a result of fraud, and have determined such risk to be low.
4. Where the impact of any frauds or suspected frauds, and non-compliance or possible non-compliance with laws and regulations, has a material effect on the financial statements, we have disclosed to you all known significant facts relating thereto, including circumstances involving management, employees having significant roles over controls, and others. We have made known to you any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators and others. The effects of such events, if any, are properly presented in the financial statements.
5. We have disclosed to you all deficiencies in the design or operation of internal controls over financial reporting of which we are aware.
6. We have disclosed to you all aspects of laws, regulations or contractual agreements that may affect the financial statements, including non-compliance.
7. We have disclosed to you the identities of all related parties to the Centre and all related party relationships and transactions of which we are aware.
8. The use of the going concern assumption is appropriate and the Centre will be able to realize the carrying value of its assets and discharge its liabilities in the normal course of business. We have provided you with appropriate and complete information about identified events or conditions that may cast significant doubt on the Centre's ability to continue as a going concern, our plans for future action and the feasibility of these plans.
9. We have no knowledge of side agreements (contractual or otherwise) with any parties that have not been disclosed to you.
10. The previous year's representation letter dated March 20, 2017 is still applicable to the prior year's financial statements and no matters have arisen that require restatement of those financial statements.
11. There are no discussions with your firm's personnel regarding employment with the Centre.

Professional Services

1. We acknowledge the engagement letter dated September 13, 2017, which states the terms of reference regarding your professional services.
2. We are not aware of any reason why MNP LLP would not be considered independent for purposes of the Centre's audit.

Sincerely,
Calgary Film Centre Ltd.

Signature

Title