Capstone 1
Amuzu Parks Inc. — Case

Candidates are expected to use the case facts from the Capstone 1 case to complete their analysis. It is not expected that candidates consider the impact of emerging current events in their response. Candidates may choose to do so in a reasonable way; however, the impacts of current events are not meant to be a significant part of candidates' analyses.

2024-05-02

Capstone 1

Amuzu Parks Inc. — Case

CPA Evaluation — 2024

It is June 5, 2024, and you are working as a CPA with Richmond, Lawrence & Co. LLP (RLC). You have been assigned to develop a report for the board of directors (board) and management of Amuzu Parks Inc. (API).

API has approached RLC with a request to perform a strategic analysis and to help set a new direction for the company. There has been rapid recovery in the industry after the pandemic, but growth is slowing, and the board wants to ensure revenues and profits continue to increase by taking steps to differentiate API from its competitors. There are conflicting viewpoints among the four shareholders as to how the company should grow in the future, as well as many additional issues that they would like RLC to analyze and address.

You have been provided with the following information to review and analyze (all dollar values are in Canadian dollars unless specifically stated otherwise).

Amuzu Parks Inc.

API is privately owned by Natalie Hopkins, Kenneth MacLean, Jacob Mason, and Terri Kellerman, with each shareholder owning 25% of the outstanding common shares. Jacob and Terri are founding shareholders from API's inception in 1996. Natalie and Kenneth each inherited their shares from their parents, who were founding shareholders. Kenneth is Jacob's nephew, and no other shareholders are related.

API owns and operates five amusement parks in Canada today — two large parks and three smaller regional parks. The company follows ASPE for reporting purposes. In 2023, revenues were just over $84 million, and net earnings were approximately $4.5 million.

An organizational chart is provided in Appendix I. API's most recent financial statements for the years ended December 31, 2021, 2022, and 2023 are provided in Appendix II. A summary of EBITDA and capital employed by each of API's amusement parks is provided in Appendix III. Industry benchmarks are provided in Appendix IV.

Industry information

Description and size

The amusement parks and arcades industry consists of parks with various attractions, rides, and entertainment, as well as arcades. Amusement parks may be organized around a theme, or may include water rides and attractions. In Canada, revenue for this industry was $413.3 million in 2021, a decline of 42.6% from the 2019 revenue total of

$720 million due to the pandemic closure requirements.[1] Although the industry is in the maturity stage, it is expected to grow to $652 million in 2026, as shown in the following table:[2]

Year	Revenue (in millions)
2019	$720
2020	$336
2021	$413
2022	$552
2023	$598
2024	$628
2025	$640
2026	$652

The industry is seasonal, with 75% of the revenue occurring during the months of April to September.[3] Two-thirds of the revenue is earned during June, July, and August.[4] The industry is also subject to revenue volatility due to weather conditions (including rain, cold, and severe weather), and many outdoor parks shut down completely for the winter months due to cold temperatures and snow.[5] Some companies have increasingly invested in indoor parks to reduce the volatility of the revenue throughout the year.[6]

Amusement parks come in all sizes but can be loosely classified into smaller and larger parks. Generally, the smaller parks operate seasonally and attract fewer than 500,000 visitors each year.[7]

[1] Matthew Buchko, IBIS World Industry Report 71310CA, Amusement Parks & Arcades in Canada - Thrill Ride: The Disruption to Operations Caused by the COVID-19 Pandemic Is Expected to Result in a Decline in Industry Profit (November 2021).
[2] Ibid.
[3] Six Flags Entertainment Corporation, 2020 Annual Report, Form 10-K, for the Year Ended December 31, 2020, page 18, https://investors.sixflags.com/~/media/Files/S/SixFlags-IR/documents/annual-reports/nc-10020462-x1-six-flags-10k-e-book-proof-v3-2020-smaller.pdf
[4] Buchko, November 2021.
[5] Ibid.
[6] Ibid.
[7] Ibid.

Product and service segmentation

The products and services sold in this industry are segmented as follows:[8]

Product / service type	Percentage of total industry revenues	Description
Admission fees	60.7%	General admission prices are charged to enter the park. Entrance fees to a water park or other unique attractions within the park usually require an additional fee. This category is expected to be the major driver of growth.
Sales of food and beverage	18.6%	This category includes revenue earned from the restaurants, snack bars, and vendors within the park.
Money-operated games	1.4%	These are games and rides paid for by cash or debit card. This category includes traditional shooting, sports, and racing games where the player either sits or stands to play. This category is predominantly video games, although also includes prize-redemption machines, dance machines, and air hockey.
Merchandise	9.9%	This category includes the sale of clothing, park souvenirs, and photographs.
Other incidental revenue	9.4%	This product category includes fees earned from parking; advertising; accommodations; rentals of storage lockers, equipment, and so on; and corporate and party events.
Total	100.0%	

<u>Admission pricing</u>

Customers are looking for attractions that provide good value for their money.[9] Often, amusement parks are located very far from their competitors, making this price comparison more difficult.[10]

There are a number of different pricing structures that are used by competitors (with some competitors using a combination of all of these), as follows:

- Single-day general admission — there are a variety of admission fees that may be charged for a customer attending for a single day, including the following:
  - Single-day admission fee — This fee provides the attendee entrance into the park and may vary based on whether they are a child, teen, adult, senior, or

[8] Ibid.
[9] Ibid.
[10] Ibid.

family. In some cases, some or all rides are included in the park entrance fee; in other cases, certain rides are an additional fee.

  - Add-on pricing — Additional fees may be charged for specific rides, more expensive immersive attractions, special features, or entrance to water parks or entertainment venues within the park itself.
  - Enhanced general day admission — This is a higher-priced single-day admission, which includes a variety of perks. These added perks may include food/beverage, shorter wait times for rides/attractions, or access to rides/attractions that would generally require additional fees.

- Dynamic pricing — In this pricing structure, there are different price levels set depending on the visitor's length of stay, day of the week, time of day, or weather (that is, on a rainy day, the admission free will be lower to attract visitors).[11] Dynamic pricing has been very successful in both small and large parks.
- Season passes — A season pass provides the holder with unlimited access to the park during a single season. Additional perks may be added by paying an additional premium that provides for food/beverage, shorter wait times for rides/attractions, and access to rides/attractions or other features within the park that usually require additional fees to be paid. Season passes are generally sold starting at the end of the previous season up to the beginning of the new season. To entice customers to purchase season passes at the end of the previous season for the next year, these passes are sold either at a discount or at the same price as the current year. The sale of season passes gives amusement park operators cash for expenditures incurred during the months when the parks do not operate.
- Memberships — Some parks now offer a membership program allowing members to earn loyalty points that can be redeemed within the park. Different levels of membership fees (again providing various levels of access to the park and its amenities) are paid monthly on an ongoing basis. The membership fee often includes a season pass as well as the ability to earn reward points on monies spent within the park.
- Large-group sales — Schools, businesses, or other organizations that are attending the park as large group generally pay a flat fee per person that is based on a discounted admission ticket and usually includes a catered meal for the group.

Value chain

The value chain can be described as follows:

1. Primary activities

   - Operations: The primary operation of an amusement park is to take land and various types of infrastructures and create an environment to entertain customers. The infrastructure includes rides, buildings, and other attractions

[11] Team Linchpin, "Trends in the Theme Park Industry Outlook for 2021," June 17, 2021, https://linchpinseo.com/trends-in-the-theme-park-industry/

throughout the property, in addition to landscaping of parklike settings. Entertainers may also be hired to provide live entertainment.

- Marketing and sales: Amusement parks market themselves using a variety of methods — online promotions, social media, radio, television, and direct mail. Passes into the park can be sold as one-day passes, and premium pricing may be used for special events or attractions.
- Service: Amusement parks are family oriented, with safety and a quality customer experience being of paramount importance. Staff must be friendly, knowledgeable, and helpful to ensure customers leave the park after having fun and a satisfactory experience.

2. Support activities

- Infrastructure: Rides, attractions, restaurants, and other structures in the park all contribute to providing the entertainment for customers. The rides and attractions must be maintained at a high level of safety standards. In addition, rides and attractions must be constantly updated or replaced to continue to attract customers who are looking for the next new thrill.
- Procurement: Food, beverages, prizes, and other merchandise are all sold within the parks and are procured from a variety of different suppliers. In some cases, a park may have a theme that will impact the nature of the products procured. Licensed merchandise may also be sold in the retail stores.
- Human resources management: This is critical for an amusement park, since it is very labour intensive. Staff are required in all areas of the park, including operating the rides and attractions, maintaining the property and rides/attractions, selling passes, and working in the restaurants and retail stores. Since staff interact directly with customers, hiring the right staff and providing adequate training is critical to ensuring high customer satisfaction.
- Technology: Technology and data analytics are used throughout the park for selling passes, monitoring the rides and attractions for maintenance issues, and managing crowds and wait times for the rides, among other activities. Technology is also used to create virtual or immersive attractions.

Participants in the value chain include the following:

- Manufacturers: Manufacturers are capital asset suppliers such as ride manufacturers and construction companies. These suppliers build and install buildings, rides, and other attractions within the park. In addition, parks may include hotel accommodations that need to be built.
- Retailers, manufacturers, and distributors: These are the companies that supply the food, beverages, prizes, and merchandise sold within the park. Purchases are made from a variety of different suppliers.
- Entertainers: In addition to attractions, many amusement parks may invite entertainers to their venues for concerts or hire entertainers to dress up in character to wander around the parks.

- Advertisers: This includes advertising companies that market and promote the park and its entertainment to customers.
- Customers: Parks receive revenue from customers in the form of admission tickets, season passes, sales of food and beverages in the restaurants and merchandise in the stores, games, and other incidental revenue streams.

Customers

The key customer segments are as follows:[12]

Customer segment	Percentage of total industry revenue	Description
Under the age of 18	26.4%	Admission tickets sold for this age group include family visits, field trips for camps and schools, and birthday parties.
Aged 18 to 34	28.3%	This age group seeks unique rides and experiences that can be shared with friends and family. This customer segment represents the highest percentage of sales for the thrill rides and roller coasters. Also prevalent in this customer segment are video game players, whose average age is 30 years old.
Aged 35 and older	45.3%	Most of these customers are coming with their children as a family. They have higher levels of disposable income to spend in the parks than the other segments. This older group is also drawn to arcades for their sentimentality, as they remember going to arcades as teenagers themselves. Included in this segment are revenues earned from corporate parties and events.
Total	100%	

Competition

Visitors are looking for value for money, and this is particularly true for families with young children.[13] In assessing value for money, the customer will compare against not only other amusement parks but also other substitute forms of entertainment, including at-home options and outdoor ticketed or free events.[14] Amusement park owners can increase the perception of high value for money by providing exceptional customer service.

[12] Buchko, November 2021.
[13] Ibid.
[14] Ibid.

In addition, customers will travel thousands of kilometres to visit well-known amusement parks, and therefore branding, types of attractions, and uniqueness of attractions in the park are important to entice these non-local customers to visit.
To be successful, amusement park operators need to ensure they have all of the following:

1. Unique and perceived high-quality rides, attractions, and immersive experiences[15]
2. A high level of maintenance, cleanliness, and safety so that the parks are appealing and safe for all ages of visitors[16]
3. Branding as a fun, family-oriented park[17]

Currently, there are 904 amusement park or arcade establishments (owned by 854 enterprises) located in Canada, and this is expected to increase to 1,357 establishments by 2026 owned by 1,271 enterprises.[18] These statistics indicate that most of the enterprises operate only one location (that is, a single amusement park or arcade). This is particularly true for the arcade segment of the industry.

There is a medium level of concentration in the industry, with the top two largest parks having 25.8% of the market share as follows:[19]

1. Canada's Wonderland in Ontario (owned by Cedar Fair L.P.[20]) has about 16.1% market share and is the most attended amusement park in Canada.
2. La Ronde in Quebec (owned by Six Flags Entertainment Corporation) has 9.7% of market share.

Cedar Fair L.P. and Six Flags Entertainment Corporation are U.S. publicly traded companies and own venues in many countries, not only Canada and the United States. This concentration of market share in a few large parks is due to several factors:[21]

1. Operating amusement parks is highly specialized and requires unique skills, particularly with respect to offering attractions that will appeal to the masses and creating a safe environment.
2. Operating amusement parks and arcades is very capital intensive, so access to large amounts of capital to continually upgrade and expand is essential for survival. These major multinational competitors will continue to expand, since they have access to the necessary capital to finance expansion.
3. Larger venues each attract millions of visitors annually, resulting in increased efficiencies due to economies of scale.

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[15] Cedar Fair, L.P., 2020 Annual Report (10 K) for the year ended December 31, 2020, https://s2.q4cdn.com/170666959/files/doc_financials/2020/ar/Cedar-Fair-10K-2020-With-Exhibits.pdf
[16] Buchko, November 2021.
[17] Ibid.
[18] Ibid.
[19] Ibid.
[20] Cedar Fair, L.P., 2020.
[21] Buchko, November 2021.

The smaller parks operate seasonally and attract a few hundred thousand visitors each year.[22] These smaller regional players have difficulty competing without heavy investments in rides and other attractions.[23]

However, given these industry conditions, consolidations have so far been rare.

<u>Competitors' strategies</u>

Differences in strategies of competitors depend on their size and scope. Some amusement parks are large enough to provide many different types of attractions for all ages, and include not only an amusement park but a water park, various rides/attractions, and diverse forms of live entertainment. Larger parks with access to more capital will continuously invest in new and unique attractions to gain attention and entice visitors to the park to try the new rides. Parks with a smaller footprint will often have attractions designed to target a very specific age of visitors.

Parks of all sizes may offer attractions, food, and merchandise all created around a single theme. In larger parks, different sections of the park may have different themes. These themes can be tied to well-known TV, book, or movie characters. Finally, regardless of size, all parks strive to give customers fun experiences, which requires good customer service.

Canada's Wonderland, the largest park in Canada, draws approximately 4 million visitors annually. The park consists of 330 acres of land, 200 attractions (including unique and expensive thrill rides not seen elsewhere), a water park, a variety of food outlets, and an in-park theatre that holds music concerts.[24] Some of these attractions are designed for a specific age group — that is, some are designed for very young children, others attract teenagers, and other attractions are for adults. This allows the park to provide some form of entertainment for all ages, increasing its attractiveness to a broad spectrum of customer target groups.

The smaller successful amusement parks are usually specialized in that they solely operate a water park or a theme park (for example, Santa's Village in Ontario), or they provide more specific types of adventures such as ziplines or ropes courses. Smaller amusement parks are designed to attract a more specific target segment, based either on age or interest or time of year.

Geographic distribution

The geographic locations of the amusement parks and arcades within Canada depend on the size and density of the population in the surrounding area, local weather conditions, and the number of domestic and international tourists that are attracted to the area.[25] To sustain a profitable amusement or water park, a population of at least a

[22] Ibid.
[23] Ibid.
[24] Ibid.
[25] Ibid.

few million people within reasonable driving distance is required.[26] Reflecting these geographic restrictions, the following table shows the number of establishments and revenue by province:[27]

	Number of establishments	Revenue (in millions)
Alberta	114	$ 52.3
British Columbia	130	59.6
Manitoba	48	21.6
New Brunswick	28	12.5
Newfoundland and Labrador	9	4.3
Nova Scotia	22	10.3
Ontario	330	150.5
Prince Edward Island (PEI)	22	10.3
Quebec	164	75.1
Saskatchewan	37	16.8
Total	904	$413.3

Capital assets

The industry is capital intensive, requiring large expenditures on rides, games, and attractions to continuously draw visitors who are looking for new thrills, excitement, and entertainment.[28] To attract new and repeat visitors, companies must invest in attractions (including rides) that are more thrilling, entertaining, or different from others. To provide some differentiation, parks and special rides are being built based on popular movies or other themes that are currently trending.[29]

Rides and other forms of attractions have short physical lives, as they are heavily used during the operating season and significant dollars are spent annually to ensure maintenance and safety standards are continuously met.[30] But these assets also have a short, limited productive life that ends when visitors are no longer interested, resulting in constant upgrading.

Capital improvements usually result in drawing an increased number of visitors during their first year of operation. With the introduction of new rides/attractions, a higher admission price is generally charged to help cover higher capital investment costs.[31]

Manufacturers, with their team of designers, engineers, and production people, create and manufacture new rides and attractions. Minor modifications may be allowed depending on the design of the equipment. However, there are also larger and

[26] Ibid.
[27] Ibid.
[28] Ibid.
[29] Ibid.
[30] Ibid.
[31] Ibid.

specialized manufacturers that create, design, and build unique rides and attractions, particularly the new immersive attractions.

The new and emerging immersive rides and attractions are very expensive, costing upwards of millions of dollars (and depending on the size, hundreds of millions of dollars). Two issues arise from these costs: the upfront cost and how to earn sufficient revenues to pay for it. Because of the high upfront costs, add-on pricing and dynamic pricing are often used to ensure these attractions are profitable.[32]

Maintenance and inspection of attractions

Ride manufacturers dictate the level and frequency of inspections required. Each day during the operating season, the rides must be checked visually and tested by qualified maintenance employees to ensure the rides are safe.[33] During the off season, more extensive testing is performed to detect cracks and defects in the steel portion of the rides.[34] As part of their planning and safety protocols, companies also design and practise contingency response plans for emergencies.[35] Ideally, park operators should implement a schedule of required maintenance and parts replacement after a specified period or number of cycle times[36] (that is, the number of rotations that the ride has completed).

Maintaining safe rides is difficult because there are many reasons an accident may occur — it may be rider behaviour, poor design, imperfections in the ride's surface, wind, amount and type of sway in the ride, and material deterioration with age and use.[37] Many companies either have professional engineers on site to help with ride assessments from an engineering and materials perspective or they hire third-party consultants on a regular basis.

Workforce

The industry is highly labour intensive, and the quality of service can help to differentiate parks within the industry.[38] As the number of visitors increases, so does the industry's demand for both part-time and full-time labour.[39] Labour is required for administration, ticket sales, food and beverage sales, merchandise sales, ride operation, and maintenance.[40]

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[32] Jamie Biesada, "Ticket Shock," *Travel Weekly*, accessed August 4, 2023, https://www.travelweekly.com/Travel-News/Hotel-News/Ticket-shock-Theme-park-companies-turning-to-dynamic-ticket-pricing
[33] Six Flags Entertainment Corporation, 2020, page 9.
[34] Ibid.
[35] Ibid.
[36] Eva Kaplan-Leiserson, "Hidden Dangers? Ticketholders Beware: Amusement and Water Park Safety May Vary. But PEs Can Help," *PE*, July-August, 2018, https://www.nspe.org/resources/pe-magazine/july-2018/hidden-dangers
[37] Ibid.
[38] Buchko, November 2021.
[39] Ibid.
[40] Ibid.

To be successful, companies need to have access to a multi-skilled and flexible (casual) workforce.[41] A large percentage of employees are part-time seasonal workers, which helps companies to control wage costs.[42] In the larger companies, some full-time and seasonal employees are union members, and therefore the union agreements stipulate the wages and benefits required to be paid.

An ongoing threat is that the part-time labour force may decline because more people are taking on permanent positions in other industries. This labour shortage will result in companies not being able to hire the numbers of employees needed for the season or having to pay higher wages to attract employees. A further threat is that if the provincial minimum wages increase, then companies will have to pay a higher rate, decreasing profits.

Regulatory requirements[43] Provincial regulations relate to safety and regular maintenance and inspection of the rides. It is the province's responsibility to ensure compliance. Regulators include the Alberta Elevating Devices and Amusement Ride Safety Association, Technical Safety BC, and the Technical Standards and Safety Authority (TSSA) in Ontario. Using TSSA as an example, regulators register rides, issue annual operating permits for rides, license the ride operators, conduct inspections, investigate incidents, and promote public awareness. As part of further regulatory requirements, ride operators must be licensed, have $2.0 million insurance liability coverage, employ a certified amusement device mechanic, and provide an operating schedule.

Other federal and provincial regulations affect companies that offer food and beverages to customers. Health Canada regulates food and beverage establishments to ensure that they meet safety standards. Provincial governments and municipalities and regional health authorities inspect restaurants and food services to ensure compliance. If liquor is sold, a liquor licence is required from the province.

Use of technology

There is an ever-increasing use of technology by amusement park operators, including the following:

- Technology is used to create new and innovative "immersive" attractions that provide a virtual reality (VR) experience for the customer and new interactive experiences, displays, and thrill rides.[44] These immersive experiences include VR based on movies, existing video games, or other trending themes. These types of entertainment require intellectual agreements; that is, if based on a movie or existing video game, licensing is required. Often an extra charge can be levied on these attractions, helping to offset the higher development and licensing costs incurred. For example, NBC Universal holds the theme rights to Harry Potter and has

[41] Ibid.
[42] Ibid.
[43] Ibid.
[44] Ibid.

increased its revenues by an average of 32.1% by using related themes in its attractions.[45]

- Surveillance systems throughout the park ensure enhanced safety for families.[46]
- Structural monitoring devices immediately detect maintenance issues to ensure that rides and other attractions operate safely.[47]
- Technology is used to allow customers to purchase tickets ahead of time or purchase enhanced tickets that allow them to "move to the head of the line."[48] Similar technology can be used to purchase food without waiting in line.
- Water filtration and pumping systems reduce the amount of water used in operations and save on energy costs, which reduces annual operating costs as well as being environmentally responsible.[49]

Technology trends include the following:[50]

- Data analytics for dynamic pricing and analyzing park capacity given different constraints, such as social distancing
- Point-of-sale monitoring to better manage inventories and identify items that are selling in real time
- Presenting live information to visitors, such as wait times at rides, attractions, and restaurants to improve the visitor's experience

There is also an increasing use of IT infrastructure to provide virtual assistants and accessible video via a wristband. This technology allows visitors to access information that is based on their location in the park and the activities of interest (including, for example, allowing them to place food orders, find tickets, and book rides).[51] This data is key in improving operational efficiencies by adding staff to assist in areas that are busy or having them redirect guests to less busy areas of the park.[52]

Sponsorships

Many amusement parks have strategic alliances with various partners and sponsors. Often sponsors provide capital to finance an expansion and by doing so become the exclusive supplier to the park for their products. For example, Canada's Wonderland

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[45] Christian Sylt, "Revealed: The Theme Parks Beating the World's Top Sports Leagues in Attendance," *Forbes*, December 19, 2019, https://www.forbes.com/sites/csylt/2019/12/19/revealed-the-theme-parks-beating-the-worlds-top-sports-leagues-in-attendance/?sh=29782fae12f1
[46] Buchko, November 2021.
[47] Ibid.
[48] Ibid.
[49] Ibid.
[50] Team Linchpin, 2021.
[51] Ibid.
[52] Ibid.

offers the following types of strategic partnership opportunities as detailed on its website:[53]

- Partners can advertise on signs in the park, and the park can integrate a partner's brand into products sold.
- Partners can provide product demonstrations and interactive experiences.
- Partners can provide products for sampling or provide coupons for purchasing their products.
- Partners' brand messages using pop-ups and banner ads can appear on the company's mobile app that is used in the park.
- Attractions can display a partner's logo if they sponsor a specific attraction in the park.
- For automobile brands, the park offers in-park digital displays or ride and drive events.

In some cases, some sponsors have also collaborated in building and designing products that are sold only at the parks. Sponsorships are a win-win for both parties, since they allow the sponsors to expand their brands and engage directly with customers and also increase the number of visitors for the amusement park operators by providing a unique attraction that will not be found elsewhere.[54]

Licences

Many parks also have licensing arrangements giving the park the right to use specified TV, cartoon, or movie screen characters (for example, Wonder Woman, Batman, or Marvel characters) in order to provide entertainment for attendees. The licence provides the right to sell merchandise that uses the characters and/or to allow the characters to be used in advertising, and to have employees walking around the park wearing the costumes of the character. The licensor has the right to prior approval of how the character will be used within the park, and the right to terminate the agreement under specified conditions. The licence typically includes a flat annual fee and a royalty fee calculated on the revenues received on the sale of merchandise that uses the licensed characters.[55]

Marketing and promotion

Amusement parks are marketed using multiple channels, including online promotions, social media, radio, television, and direct mail. These initiatives are designed to target a customer segment or promote a new attraction.[56] In addition, amusement park operators may co-market with other companies when targeting specific customer

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[53] "Strategic Partnership," Canada's Wonderland, accessed August 4, 2023, https://www.canadaswonderland.com/partners
[54] Christian Sylt, 2019.
[55] Six Flags Entertainment Corporation, 2020, page 7.
[56] Six Flags Entertainment Corporation, 2020, page 6.

segments.[57] For example, a special discount or coupon may be included with the sale of a product, which allows companies to share advertising costs. Special promotional offers are most often provided in the form of reduced admission prices for a specified period or with coupons that can be used within the park for specific rides or entertainment.[58]

Demand drivers

The following are the drivers of demand in this industry:

- Amount of customer leisure time — With increased leisure time, customers will have more time to spend at amusement parks.[59]
- Number of children aged 19 and younger — As the number of children in this age group increases, so does the demand for amusement parks. The number of children in this age bracket is expected to increase slightly over the next five years.[60]
- Inbound international tourists — Tourists spend time at popular tourist destinations, which include the larger and more well-known amusement parks. As the number of international visitors to Canada increases, admissions to the parks will also increase. The number of inbound international tourists is expected to increase at an annualized rate of 57.7% to 2026.[61]
- Per capita disposable income — As disposable income increases, customers have more to spend on entertainment, which includes amusement parks and arcades. Consumer spending is expected to increase 2.9% annually to 2026.[62]
- Total tourism expenditures — As the total amount spent by tourists increases, this increases the demand for amusement parks' attractions, merchandise, and food sold within the parks.[63]

Trends

The following is a list of trends in the industry*:*

- There is significant competition from at-home substitutes, including smartphone game apps, free online games, and console systems. As a result, companies in this industry are developing more interactive 4D rides, games, and attractions that cannot be duplicated at home.[64] 4D rides or attractions use 3D glasses to provide the 3D vision and then add in some other sensory effects. For example, the sense of touch can be impacted using fog, misters that spray water, seat pokers that poke the

[57] Ibid.
[58] Six Flags Entertainment Corporation, 2020, page 7.
[59] Matthew Buchko, November 2021.
[60] Ibid.
[61] Ibid.
[62] Ibid.
[63] Ibid.
[64] Ibid.

person, or moving seats.[65] Smell can also be another sense that is targeted with a special effect.[66]

- The adult segment is a growing target market as companies in this industry endeavour to attract these customers with new services such as spas and health and wellness facilities.[67]
- A growing trend is for consumers to spend on experiences rather than products, as concluded in the 2018 Global Theme and Amusement Park Outlook report from the International Association of Amusement Parks and Attractions.[68] This is particularly true for people who were born between 1980 and 1995 and are currently aged 29 to 44 years old. A McKinsey report found that during the period 2014 to 2016, this demographic group's spending on theme parks and travel grew nearly four times faster than expenditures on goods.[69] One explanation for this increase is that having these experiences gives people the ability to post exciting and interesting pictures on their social media accounts. The more exotic the experience or location, the more pictures are posted, which then may create demand from their friends to want to have the same experience, potentially increasing subsequent ticket sales at the park.[70]
- Some amusement parks have considered changing their business model from trying to attract the highest volume of visitors and maximize the capacity of the park, to an exclusive, luxury pricing model where there is reduced capacity, more social distancing, and no waits, but a higher price charged.[71] The higher price is justified with more immersive experiences.
- Touchless technology using facial recognition and retinal scanning will be used for employee access points. For visitors, touchless ticketing, faucets, and door openings will be instituted.[72]
- More immersive experiences for the rides and attractions will include 3D digitally created reality and augmented reality technology, which enhances the real world using digitally produced virtual objects, sound, and other sensory stimuli.[73]
- Food experiences will become part of the immersive experience by: incorporating the theme into the food, providing healthier food choices and regional specialties, and having multiple eateries in the same dining area serviced by the same kitchen.[74]

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[65] Arthur Levine, "Types of Theme Park Attractions: What Are Dark Rides, Flat Rides, VR Rides, 4D Rides, and Other Park Rides?" *TripSavvy,* November 13, 2020, https://www.tripsavvy.com/types-of-theme-park-attractions-4110823
[66] Ibid.
[67] Matthew Buchko, November 2021.
[68] Christian Sylt, 2019.
[69] Ibid.
[70] Ibid.
[71] Team Linchpin, 2021.
[72] Ibid.
[73] Ibid.
[74] Ibid.

- Blockchain technology will be used to eliminate the need to print tickets and make ticket sales more secure by ensuring they are not sold above their face value and are sold for only one guest and not duplicatable. This technology also allows for discounts for food and merchandise purchases within the park to be embedded into tickets.[75]
- A growing trend driven by customer pressure, mainly from people born between 1996 to 2005, is for amusement parks to reduce the amount of waste and to use clean energy sources, such as solar energy.[76]
- Increasingly, companies are adding themed hotels that provide a totally immersive experience in a theme that includes food, games, and characters.[77]

General risks in the industry

The following is a discussion of risks in the industry:

- Unstable economy and changes in consumer tastes[78] — An amusement park's revenues are subject to the amount of discretionary income consumers have to spend. If consumer confidence is low, then spending on discretionary items falls. In addition, if consumers are more attracted to other forms of entertainment, fewer dollars will be spent on amusement parks. Both these risks will reduce industry revenues and profits.
- Operating costs — Fixed costs represent a high percentage of total costs and therefore there is the risk that profits and margins will fall significantly if revenues are lower than expected.[79] As this is a labour-intensive industry, there is also the risk that the costs of labour will increase due to competition and government-mandated increases in minimum wages. There is also the risk that there will be a shortage of labour with the skillset required for certain jobs, increasing the cost of this labour. These risks will increase operating costs and lower profits.
- Attractions and riders[80] — There is the risk that a new attraction or ride will not appeal to customers, resulting in no increase in revenues to cover the capital and operating costs related to this new asset. There is also the risk that construction of a new attraction could take longer than expected, which will adversely impact the timing and amount of additional revenues that had been expected to be generated from the addition of this new asset, as well as additional costs due to delays. The longer the delays, the higher the losses incurred. In some cases, the delays and associated additional costs could result in abandonment of construction, resulting in loss of costs already incurred.

[75] Ibid.
[76] Ibid.
[77] Ibid.
[78] Cedar Fair, L.P., 2021.
[79] Ibid.
[80] Ibid.

- Weather — Actual or forecasted rainy, cold, or severe weather can negatively impact the number of visitors to outdoor amusement parks. Geographic scope of numerous parks can help reduce the effect of adverse weather on the total company profits.[81]
- Lawsuits due to accidents[82] — Accidents that result in injury or death can result in lawsuits that increase legal costs and reduce visitor numbers due to negative impact on reputation. In addition, existing insurance coverage may not fully cover damages awarded under these lawsuits, putting a strain on cash flows. Finally, future insurance premiums may significantly increase after such events, or companies may not be able to purchase adequate insurance coverage at reasonable market rates. Without adequate liability insurance coverage, the park cannot meet regulatory requirements and therefore cannot operate.
- Cybersecurity[83] — Amusement parks gather, store, and transmit confidential information related to visitors and employees. There is a risk that a cyberattack could target this information, resulting in a loss of personal data, damage to the company's reputation, lawsuits, and a disruption of business.

Company background

Jacob and Kelly Mason, twin brother and sister, grew up in British Columbia. Their parents owned a ski resort, Giant Mountain, in a small town in the interior of British Columbia, and the two worked in this family business as soon as they were old enough and through university. Upon graduating from university with a business degree, Jacob went to work in the United States for a large multinational amusement park operator. Jacob worked in the head office as a financial analyst and then moved up the ranks to VP, park operations. Kelly, a graduate in mechanical engineering, went to work with a large ski resort in British Columbia in their operations department.

In 1996, Jacob and Kelly's parents died suddenly in a car accident, leaving the ski resort as part of their inheritance. At the same time, a large amusement park in Vancouver came up for sale. The revenue and profits for this amusement park had deteriorated over the past five years, as the previous owners aged, lost interest, and underinvested in the rides. Jacob believed that the selling price was very reasonable and that with his knowledge of operations, he and Kelly could turn the park around. Jacob was used to living in the city, so running the ski resort in a rural area did not appeal to him. After much discussion, Jacob and Kelly decided that they would sell Giant Mountain and use the funds to purchase this amusement park, which they decided to rename Magical Land. However, not having sufficient funds alone to make the acquisition, they approached two friends, Wayne Hopkins and Terri Kellerman, to see if they might be interested. Wayne worked as the manager at Giant Mountain and was now looking for a change as a result of the sale of the resort. Terri, who worked in marketing for a national media and advertising firm, was also ready for a change.

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[81] Ibid.
[82] Ibid.
[83] Six Flags Entertainment Corporation, 2020, page 18.

In August 1996, API was incorporated with each of the four founding shareholders owning 25% of the company. Using the initial equity invested capital and some debt, API purchased the assets of the park they renamed Magical Land. Under API's new ownership, Magical Land's reputation spread, and revenues and profits steadily increased until it was recognized as one of the top six amusement parks to visit in Canada.

Based on this success, in 2005, the shareholders wanted to expand by investing in other amusement parks and started an acquisition strategy to purchase struggling parks that they felt they could turn around. They identified a list of factors that they would use to identify possible acquisition targets for successful purchases. The factors included considerations related to location, size, historical financial results, and offer price. For each acquisition, only the assets were purchased and the park names changed.

Over the years, all the shareholders were constantly on the lookout for acquisitions that would meet their detailed requirements. In 2007, API purchased its Dinoland Amusement Park (Dinoland), a smaller family-oriented park close to Edmonton, Alberta. After spending two years integrating and improving the financial results of Dinoland, the shareholders decided to move further east and in 2011 acquired the assets of Sparkle Amusement Park, another small amusement park attracting young families located just outside of Ottawa, Ontario.

In 2015, the owners of a water park in London, Ontario, approached API about partnering with them to finance a major expansion project. The shareholders decided that a water park would be a good fit with their strategy and they could learn from the experience of the existing management to operate this type of attraction. In 2016, a year after the successful expansion had been completed, by mutual agreement, API purchased the ownership of the assets of the water park outright to become its sole owner and renamed the park Splash N Fun Water Park.

Jacob and Wayne both believed that the company was now ready to construct an amusement park from scratch that would incorporate new features and the vision that they had. Based on their analysis of the market, they felt that this new addition to the company's portfolio should be constructed in Quebec. In 2017, API purchased the land and started construction of Aqua Bleu Parc, a 100-acre amusement and water park in St. Sauveur, an hour north of Montreal. In the spring of 2019, the park opened.

Because many of its closest competitors were owned by U.S.-based companies, Terri suggested (and was fully supported by all shareholders) that API should market itself as "Canadian owned and operated." This would allow API to differentiate itself from its large U.S.-headquartered competitors.

Then in late 2019, Wayne suddenly died, leaving his share of the business to his daughter, Natalie Hopkins, who was 30 years old at that time. Natalie had been working at API for the past 15 years, starting part time and then becoming full time after university graduation. Natalie's degree is in human resource management, and as a shareholder she took on the role of VP, human resources.

After the pandemic hit in 2020, the parks had to intermittently open and close throughout 2020 and 2021 based on the provincial regulations in the jurisdictions where the parks operated. Total revenues plummeted from a high of $95 million in 2019 to $37 million in 2020. API also had to get additional financing to weather losses for 2020 and 2021.

The shareholders were able to secure financing from R&W Bank for some one-time support, but the shareholders had to each provide personal guarantees and the company had to commit to various covenants related to the loan. API also had to cut back on the amount it spent annually on upgrading and replacing its attractions in order to conserve cash flow.

In 2020, Kelly decided to retire. She sold her shares to Kenneth MacLean, her son, who decided to leave the VR production company he worked at in post-production to come work full time at API.

Company overview

Today, API still operates the five amusement parks. Although the API name is not well known, each of its parks' names is individually recognized and has a reputation for being safe and clean with friendly staff. It also has a very low accident rate, giving it one of the best safety records in the industry. This reputation has attracted Canadian visitors and helped API to grow back its revenues and maintain most of its market share lost since 2020. Note that its total revenues represented about 13% market share in 2019 and 14% in 2023. However, neither the API name nor its parks are well known internationally. The number of international tourists, primarily from the United States, represented only 8% of its total annual visitors, significantly down from its highest at 15% in 2018. Only Magical Land and Aqua Bleu Parc attract international tourists. The other three parks draw their visitors primarily from the local vicinity within a maximum three-hour drive of the park and also attract some non-local Canadians.

The parks are designed to target two customer segments: (1) families with young children (up to 15 years old) that are attracted to parks that offer a variety of rides and a clean and safe environment; and (2) young people between the ages of 16 to 35 years old that are attracted to exciting thrill rides.

Safe rides and a safe park environment is the company's number one priority. This results in the company hiring well-qualified engineers and mechanics to maintain the rides and the property, and employing security personnel and security surveillance cameras to ensure that the environment is safe for all ages of visitors.

The parks are open May 1 to October 15, or 168 operating days, weather permitting. Only on rare occasions have the parks been closed due to safety concerns caused by high winds, torrential rain, or snow. The daily operating hours for each park are 9 a.m. to 10 p.m.

The company sells single-day and season passes that can be used only at a single park; it does not sell a universal pass that can be used at any of its parks. The season pass allows the holder to visit that park an unlimited number of times during a single season.

Once a customer enters a park, there is no extra charge for any rides or attractions. In setting the company's strategy, the founding shareholders were adamant that they wanted to make it easy for visitors — the park pass would be all inclusive and include parking and access to all the rides and attractions within the park. Visitors pay extra only for food, beverages, and store merchandise purchased while in the park.

Within each park, the company has multiple food outlets that sell fast food such as burgers and pizzas. These quick-service restaurants are owned and operated by API. The number of food outlets in each park varies depending on the size of the park and its visitor capacity. In addition, each park also has a store that sells a variety of tourist merchandise including items such as T-shirts, sweatshirts, hats, souvenirs, and candy.

An important ratio for API is average in-park per capita spending, which is the total revenue by park divided by the number of park visitors during the season. This ratio represents the average amount that a guest spends at the park each time they visit and includes admission revenue and food, beverage, and merchandise sales revenues. The annual goal is to increase dollars spent per visitor in each visit, which will result in increased total revenues.

Each park is managed by a park manager along with a dedicated supporting management team. Park managers have autonomy in making decisions that relate specifically to their park, giving them flexibility and the ability to quickly adapt to changes in local preferences. Each year, the park managers provide proposals for new rides/attractions and improvements they would like to see in their parks. The shareholders believe that selective introduction of new rides and attractions each year in every park and investments in the parks' appearance are vital to attracting new and returning visitors. These improvements should result in higher in-park per capita spending by visitors.

As the industry is very capital intensive, and with the cost of debt being favourable, API has had a policy of using debt to finance its acquisitions and construction projects in addition to internally generated operating cash flows. Previous to 2019, the company regularly paid dividends when there was excess cash available.

Since 2022, the revenues and profits have increased but are still not yet back to pre-pandemic levels. This is worrisome to the shareholders because they had hoped to have repaid the R&W Bank loan by the end of 2023 to eliminate the covenants and personal guarantees. The company also needs to invest in upgrades to its attractions, and yet the current profit levels do not generate sufficient operating cash flows to internally finance these capital additions and repay its debt.

Up to now the company's strategy has always been to provide "classic" amusement parks that are Canadian owned and operated and that provide good old fashioned outdoor fun. The company invested only in outdoor amusement and water parks, as this is what the shareholders were most comfortable with.

However, having had to borrow additional funds during the pandemic, and with lower profits for several years, the shareholders have now realized that API is more highly leveraged than they are comfortable with. As such, the shareholders' objective for 2024 is to repay the R&W loan and be tactical and cautious in their capital spending by setting a more focused strategy for growth. With this cash constraint, Jacob has convinced the other shareholders that they must give more consideration to what the future strategy of the company should be and, given that decided direction, where funds are best spent.

Corporate vision and mission

In 2021, the board approved updated vision and mission statements as follows:

Vision statement: *Our vision is to create Canadian-owned and -operated amusement parks that visitors will leave feeling happy and thrilled, and with lasting memories of a fun time.*

Mission statement: *Our mission is to build amusement parks that are Canadian owned and operated, designed for safe fun, and entertaining for all ages. The parks have rides that are the best in the region, and park employees are dedicated to providing exceptional guest service.*

Corporate values

API has the following five core values:

1. Continuously upgrade and invest in new rides/attractions that will appeal to our target market.
2. Ensure that rides/attractions are maintained at the highest safety standards and that ride operators are trained on and comply with manufacturers' restrictions.
3. Ensure parks are safe and clean at all times.
4. Exceed visitor expectations by having employees that are courteous, honest, and dedicated to giving guests a great experience.
5. Ensure employees and visitors are always treated with respect and integrity.

The company has an open door policy that allows any employee to have a meeting with any shareholder at any time on any issue. The company also requires each employee to sign an agreement each year that they will comply with all safety requirements and report any safety concerns or infractions that they see. In addition, employees must comply with the code of conduct, which details that API does not tolerate any form of discrimination or harassment and that violations of this are to be immediately reported.

Future plans and objectives

In February 2024, the board set the following objectives to be achieved by 2027:

- Achieve annual revenues that are equal to or higher than pre-pandemic annual revenues of $95 million.
- Expand the company's presence to all provinces in Canada.
- Increase the average in-park per capita spending for the company by 10%.
- Increase the operating margin to 17%.

Company structure

The company has a board of directors that consists of all four shareholders, with each shareholder having one vote. The board meets weekly during the busy season and monthly during the off season. Monthly financial statements and park reports are discussed along with related operational and financial decisions. In the past, strategic issues have not been discussed, as this was not considered an important issue to spend time on. Historically, all shareholders seem to have supported the strategy that the company was following. Although the directors go through elections of positions each year, each shareholder's position has not changed since they became an owner. There are no board committees, as the company does not want to involve outsiders in its private business.

Management team

API's corporate management team is made up of the following individuals:

Jacob Mason, CEO and chair of the board

Jacob is currently 59 years old and gained his experience at a large U.S.-based amusement park company as VP, operations. Jacob is still heavily involved in the day-to-day operations of the company, with all five park managers reporting to him. Having honed his financial analysis skills at a large U.S. company, Jacob learned that being on top of financial results and making operational changes sooner rather than later are important for success in this business. As such, Jacob is very focused on profits and free cash flows for each park. His main strength is in analyzing these cash flows. In addition, Jacob visits every park at least three times during the operational season. In this way, he gets to see firsthand what is working, what is not working, and changes that might be required. He also takes the time on these visits to talk to all levels of employees. Jacob's decisions are driven by financial results and his observations, and it is adherence to this decision-making process that has allowed the company to remain viable during the past difficult years. Getting out of the office, visiting the parks, and talking to the employees has earned Jacob the respect and confidence of all his employees.

At this point, Jacob believes that what made company successful in the past is no longer acceptable. The company has to move forward and embrace the technological changes that are occurring in the industry rather than ignoring them in the hopes that customers will still feel nostalgic for the old times.

Terri Kellerman, VP, marketing and sales

Terri is currently 60 years old. She has a background in marketing, and she works with her team to design the national marketing campaign each year. She also works with the individual park managers to assist with local and regional advertising. Terri sets admission prices for each park after reviewing competitors' pricing.

Terri is the face and voice of API's television commercials and in-person promotions. She is a great oral and written communicator and writes creative marketing materials that generally appeal to parents with young children.

Terri strongly believes that the parks are attractive to families that are looking for good plain outdoor fun and to get away from technology for a few hours. Because the use of technology is usually an individual endeavour, she markets the parks by stressing that activities are done together, and memories are made together that can be later shared. This is the message that Terri has used to promote each park and for national branding advertising.

Natalie Hopkins, VP, human resources

Natalie is 34 years old. All her work experience is with API. She came up through the ranks, starting as a part-time seasonal employee at a young age. Most of API's employees are part-time, seasonal workers, and Natalie is seen to be empathetic and compassionate, so employees have no hesitation coming to her to discuss any type of issue. Natalie believes in fair wages and fair treatment for all employees. Her strength is being accessible to employees, taking the time to meet, listen, and try to help them. Natalie is also known to be fair in dealing with harassment or discrimination complaints, whether it is employees or guests who are not complying with the code of conduct.

During the season when the parks are open, Natalie spends about 40% of her time visiting the parks and talking directly to the seasonal employees. Natalie believes that her meetings with new employees at the parks helps to ensure that employees know her personally and feel comfortable talking with her. She believes that the success of API is due to its employees, who are the face of the company to visitors. Because they are treated fairly, employees are willing to give their best and be attentive to visitors.

Natalie believes that by keeping to the nostalgic rides and layout of its amusement parks, API remains attractive to families that just want to have fun together and make memories. Her mantra is that "Not everything has to change because there are new inventions and different forms of entertainment." She believes that there will always be demand from parents for the "way things used to be" and that the parks should be targeting these families.

Kenneth MacLean, VP, rides and technology

Kenneth is currently 36 years old. He has an engineering degree and experience in technology and VR post-production, and he is responsible for rides and the technology. In the case of the rides, his primary responsibilities relate to ride acquisitions and maintenance. With respect to technology, he is responsible for all IT systems used in-house and within the parks. As part of keeping up to date, Kenneth is the one shareholder who attends the annual industry conferences to keep on top of what is new and up and coming in the rides and other attractions. He believes that to attract teenagers and young adults, the company should be looking at more unique and differentiating attractions and believes that there is a growing segment that will be attracted to immersive entertainment that uses VR. Rather than “Canadian owned” being promoted, he believes the attraction that provides a “Canadian experience” would draw in more non-local Canadians and international visitors.

Kenneth’s main strength is being able to understand complex technology and engineering concepts. Although he is involved in maintenance of the rides, he does not manage (and does not want to manage directly) any of the maintenance employees. Instead, Kenneth is the person who plans and reads the maintenance reports, authorizes new ride purchases, and is called upon for his assistance and experience if serious maintenance issues occur on site.

Divya Mondal, chief financial officer

Divya is 49 years old and has been with the company for the past 12 years. She has a business degree in accounting and finance and started with the company in its accounting department. Four years ago, when the previous CFO retired, Divya was promoted to this position. Divya works very closely with Jacob to ensure that he has the reports in the format and within the time that he needs. She helped Kenneth upgrade the IT system to generate the reports that are needed on a regular basis. She manages the accounting department and deals directly with the lenders for reporting requirements.

Human resources

The company has a workforce of 2,006 people. Of these employees, 1,900 are part-time and seasonal, working only during the parks’ open season, and 106 are full-time employees working all year round. The following table details the employee groups.

Employee type	Number of employees	Full-time or part-time	Total salaries/ wages ($)	Benefits ($)	Total ($)
Park — part-time/seasonal	1,900	Part-time	20,520,000	2,667,600	23,187,600
Park maintenance	50	Full-time	2,250,000	562,500	2,812,500
Sales and marketing	20	Full-time	875,000	218,750	1,093,750
Senior management — shareholders	4	Full-time	1,200,000	300,000	1,500,000
Other senior management	5	Full-time	850,000	212,500	1,062,500
Park managers and park management team	15	Full-time	900,000	225,000	1,125,000
Administration, IT, head office staff	12	Full-time	700,000	175,000	875,000
	2,006		27,295,000	4,361,350	31,656,350

The wages are allocated by function on the statement of earnings. The company pays its part-time seasonal employees slightly higher than minimum wage, depending on the province, and employees work 24 weeks in the year with varying hours per week. The company pays this premium because it believes that if employees are satisfied with their wages, they will come to work every day and try to do the best job they can. As these employees are the face of the company to all park visitors, it is important for the employees to be happy and want to do good work in order to keep their job. This has been proven by unsolicited reviews on social media that have scored customer service as being very high at API's parks. If required and approved by a manager, overtime hours are paid at 1.5 times the employee's normal rate. Medical and dental benefits and disability/accident and life insurance coverage and other benefits are provided for the full-time employees only, with only government-mandated benefits paid to part-time staff.

Although there is high staff turnover year to year due to the seasonal nature of the operations and the ages of seasonal employees, during a single operating season, staff turnover is very low in comparison to the industry.

Safety training is provided to all employees. Additional technical training is paid by the company when it is required for the employee to perform their job.

All of the shareholders work full time for the company. Terri and Jacob receive a salary of $350,000 each, due to their seniority, and Kenneth and Natalie received a salary of $250,000 each.

The payroll system was updated in April 2024 to include a new scheduling system for the park employees. Since that time, Natalie has noticed that there has been an increase in the number of employee complaints about their pay being incorrect. Complaints include being underpaid for regular hours worked, and overtime hours either not being paid or being paid at the regular hourly rate rather than the overtime rate. Each employee is different, and the overtime hours will depend not only on the hours worked in a single day, but also the total hours worked in a week. Appendix XI provides more information on the new payroll system.

Company operations

The company has a well-developed website that is used to promote API by telling the story of how it came to be, describing the five parks, and showcasing the rides in each. On the website, customers can purchase both single-day passes and season passes. Both types of passes are also available on site at the ticket office at the main entrance to each park.

Description of parks

Of API's five parks, Magical Land and Aqua Bleu are referred to as the two larger parks; the remaining parks are referred to as the three smaller parks. These parks draw local visitors that live within a three-hour drive from the park. Non-local tourists are drawn from across Canada or are international visitors, primarily from the United States.

1. Magical Land was acquired in 1996 and is an amusement park on 120 acres with 40 rides and other attractions. The primary target market is families with young children and people aged 12 through 35. It is located in South Vancouver, B.C. Daily capacity is 8,400 visitors. The park has to draw both local visitors and non-local tourists to be financially successful.
2. Aqua Bleu Parc was constructed by API and opened in 2019. The 100-acre park consists of an amusement park section that has 35 rides and a water park section. The water park has 12 different water features including tunnels, splashpads, bridges for younger children, and twisting water slides for adults and teenagers. The amusement park is designed primarily for ages 12 to 35, as the amusement rides are more "thrill" based, although there are a limited number of more gentle rides for younger children. It is located in St. Sauveur, Quebec, just north of Montreal. Daily capacity is 4,750 visitors. The park has to draw both local visitors and non-local tourists to be financially successful.
3. Splash N Fun Water Park was acquired in 2015 and is located in London, Ontario. It is a 30-acre water park that offers 12 attractions, including a variety of water slides, pools, a lazy river, waterfalls, and a few rides. Many of its attractions have a theme of animals common to Ontario, such as Moose Mayhem and the Wild Weasel river ride. The primary target market is families with young children up to 15 years old. Daily capacity is 2,500 visitors. This park draws visitors from cities in southern Ontario that are within a two-hour drive of the park.
4. Sparkle Amusement Park was acquired in 2011. The 25-acre amusement park consists of 20 rides that are designed primarily for families with young children less than 11 years old. It has a history of Canada theme and is located in Ottawa, Ontario. Daily capacity is 1,900 visitors.

5. Dinoland Amusement Park was acquired in 2007. It consists of 20 acres with 12 rides. Both the park and the rides are designed around a dinosaur theme and target families with young children less than 11 years old. Daily capacity is 1,640 visitors. It is in Edmonton, Alberta, and draws visitors from Edmonton and Calgary.

Revenue

The table below details the 2023 attendance and revenue dollars earned by each park.

	Total park attendance (number of visitors)	Average in-park per capita spending	Average admission revenue per person	Admission revenues	Food and merchandise revenue per person	Food and other sales	Total revenue
Magical Land	827,727	$45.14	$29.50	$24,417,947	$15.64	$12,945,650	$37,363,597
Splash N Fun Water Park	370,519	$39.50	$25.80	$9,559,390	$13.70	$5,076,110	$14,635,500
Sparkle Amusement Park	250,200	$36.50	$21.85	$5,466,870	$14.65	$3,665,430	$9,132,300
Aqua Bleu Parc	350,900	$45.30	$31.20	$10,948,080	$14.10	$4,947,690	$15,895,770
Dinoland Amusement Park	206,700	$34.10	$19.75	$4,082,325	$14.35	$2,966,145	$7,048,470
Total	2,006,046			$54,474,612		$29,601,025	$84,075,637

Total park attendance is the total number of people using the park. Some of these might be repeat visitors, such as those with season passes, and therefore they would be included in the count each time they visit the park.

The average minimum amount of time spent by visitors is three hours for the three smaller parks and five hours for the two larger parks. API does not have any arcade games that generate additional income, nor does it generate additional income from incidentals such as parking, lockers, and so on. API's admission price covers admission and parking, and there are no additional fees required to be paid. Customers have commented that they appreciate that the price is all inclusive.

The company tracks in-park per capita spending as one of its key performance indicators. In 2023, the company's overall average in-park per capita spending was $41.91,[84] which has declined from its high of $43.37 in 2019. With the objective of attracting visitors back to the parks post pandemic, API has had reduced admission prices since 2020. In addition, visitors have been spending less for food and merchandise within the parks due to reduced consumer disposable income in 2023.

Season passes that were sold in the 2023 fiscal year for the 2024 operating season are recognized as deferred revenue until 2024. To entice customers to purchase season passes early, prior to December 31, 2023, the offer price is set at the same price as for 2023 with the caveat that prices will increase on January 1, 2024. Seasons passes are non-refundable.

Prior to 2020, the company was able to presell about 25% of its annual revenues, which is higher than current rates for 2024. During the 2024 operating season, the deferred revenue is amortized on a straight-line basis into revenue based on the number of days the park is operational. API sets the price of the season and single day passes by reviewing what comparable amusement parks are charging and estimating the number of uses on the season pass.

The company also sells group passes for a single-day event. For example, schools, businesses, or other organizations may plan to attend a park as a group on a specific day. These group passes are arranged by head office and are usually sold at a discount.

Park operations

Each park has a park manager who is responsible for all the operations and management of the park. The park manager, along with a team of full-time managers, is responsible for all day-to-day operations. This includes local marketing and promotion, ticket sales, human resource functions for all full-time and part-time employees, equipment and property maintenance, and in-park food and merchandise purchases and sales. The park manager prepares an annual budget, and once approved by the executives, they can spend within this budget. Any extraordinary expenditures outside

[84] Calculated as total revenues ÷ total visitors = $84,075,637 ÷ 2,006,046 = $41.91 per visitor.

of this budget need prior approval from the executives. An equipment maintenance team is assigned to the park for the season, and it reports directly to the park manager. The park manager is also responsible for ensuring that safety training of the park's employees is adequate and up to date. The park's management team is compensated with bonuses based on profits and free cash flows generated at the park.

Ride safety protocols, maintenance, and inspection

Safety of the rides is critically important to the shareholders, and this is evidenced by API's very low accident rate (with the accidents themselves being very minor) in comparison to competitors. Each ride is inspected daily to the manufacturer's specifications during the operational season. In addition, the company has installed structural monitoring devices that detect maintenance issues as soon as they occur. This allows the technicians to fix issues as they arise during the day, between inspections.

During the off season, when more time is available, the rides are extensively tested and inspected for cracks or defects and stress-tested at various speeds and loads. API uses a software program that lists the name and type of every ride, the date of purchase, every inspection and follow-up performed, date and type of equipment replaced, and operating schedule. If cycle times are available on the ride, these are also tracked and monitored. This allows replacement of parts and more extensive maintenance that must be performed after a specified number of cycles. Reports are filed with the provincial regulators as required.

Employees responsible for maintaining and inspecting the rides are all certified and qualified to perform these duties. API pays for the employees to attend annual training courses to ensure that their knowledge and required certifications (such as the amusement devices mechanic certification) are kept up to date.

In addition, the company hires third-party engineering consultants to perform an annual inspection on the rides. This is required by the insurance company, and engineering reports detail the findings and any follow-up work required.

API has a fully documented and practised emergency response plan in case of an accident or other such occurrence in the park. Response procedures are practised prior to opening for the season and then periodically throughout the operating season. Every employee is trained on their responsibilities in the case of an accident. The company also has liability insurance coverage of $2.5 million in case of an accident. With its low accident rate, insurance premiums have remained stable compared to competitors that have had to either self-insure or pay exorbitant insurance premiums.

Cost of goods sold

The company sells food and beverages (all non-alcoholic) in its parks at various quick-service outlets. The food and beverages are purchased from a shortlist of national suppliers that have been pre-approved by the company and that have the capability to ship products across Canada to all the park locations. A similar process is used for merchandise sold in the stores, which include clothing, souvenirs, and candy. Consolidating its suppliers has allowed API to negotiate multi-year supply agreements at favourable prices.

The food, beverage, and merchandise manager assigned to the park (reporting directly to the park manager) is responsible for all of these orders. The inventory items are then shipped and received directly at each park. API uses point-of-sale systems to manage its inventories. As soon as an item is received, it is entered into the inventory system, and similarly the inventory is reduced when it is sold. A report of inventory on hand is reviewed daily by the food, beverage, and merchandise manager, and any low items are immediately ordered.

In compliance with federal regulatory requirements, the restaurants are periodically inspected, and to date there have been no issues found.

Licences and sponsorships

API has never entered into any sponsorship or licence arrangements for exclusive rights to sell or use well-known animated characters. The shareholders believed that these commercialized characters were not needed to attract their target segment of consumers and would not result in any additional profits. Without these sponsorship or licence arrangements, the company cannot sell any character merchandise or give names to the rides and attractions that relate to any of these themes or characters. In addition, because few licensed characters are Canadian made, API is not willing to compromise its Canadian theme with U.S.-based characters. API has also not actively pursued or been involved with any sponsorships.

Marketing and advertising

API uses national marketing and local marketing programs to promote its parks. National advertising is used to promote the API brand name, increase its exposure, and entice non-local Canadian and U.S. consumers to include attendance at one of the parks as part of their travel plans. National marketing is completed using television commercials, social media, and the company's website. Approximately 15% of API's national marketing budget has been spent in the U.S.

For local marketing, the company uses advertising in the local newspapers or online news sites, direct mail, and local television commercials. In addition, coupons for discounts on single-day passes are used to entice new customers to come and try the park for the day. In 2023, the company was focused on getting new customers to come to the parks.

Both national and local marketing materials advertise that the API parks are “classic amusement parks that are Canadian owned and operated.”

Property, plant, and equipment

The following schedule details the property and equipment that is owned by the company. Currently, the company does not lease any assets. In addition to the equipment and buildings in the parks, the company has a head office located in a suburb of Vancouver.

Asset	(in $’000s)	Depreciation policy
Land	12,506	None
Land improvements	13,079	Straight-line over 15 years
Buildings	23,181	Straight-line over 30 years
Rides and other equipment including on-site vehicles	56,430	Straight-line over 4-25 years; average over 12
Total net book value	105,196	

For accounting purposes, land improvements include landscaping costs. Landscaping costs are deductible in the year incurred for tax purposes, so the cost of land improvements added to undepreciated capital cost (UCC) each year excludes landscaping costs.

New rides and attractions are proposed by the park managers based on their review of manufacturers’ catalogues of rides available and new products being introduced. In addition, these managers also read industry association reports and newsletters that detail new rides/attractions being introduced in the United States and the “hot” new rides and attractions for the coming year. From this list of rides and attractions, the park managers make their requests along with estimates of financial impacts. Jacob and Kenneth then review these requests and projections and make a final decision on which investments will be made each year. There are no unique modifications made to the equipment, in order to keep the cost of equipment reasonable.

The company has a policy to regularly replace and/or upgrade its rides. The board has committed to future annual investments around $14 million starting this year. Only new rides are purchased, and in very rare cases, rides may be relocated to another park. In addition, the food and retail outlets are also upgraded. Changes and improvements are made regularly to the landscaping within each park. Finally, technology infrastructure has required significant investment over the past five years. Technology is used for video surveillance, employee communications throughout the park, and admittance at the park for scanning the passes.

Although there have been some preliminary discussions about upgrading the water systems to conserve water and energy, to date, the company has not acted on this. Right now, API’s focus is on investing to replace and update its rides and attractions.

Divya just realized in reviewing past tax returns that an error had been made in the filing of the 2022 corporate tax return. The additions to UCC made in 2022 of $1,040,000 for land improvements and $750,000 for building additions were incorrectly included in Class 8 rather than the appropriate classes for these assets, and immediate expensing was applied to Class 8 additions. The appropriate rate for Class 8 equipment is 20% declining balance, while capital cost allowance (CCA) on land improvements should have been claimed at 8% declining balance, and the building additions should have been claimed at 6% declining balance. She is not sure how to get this corrected with the Canada Revenue Agency (CRA), and she is concerned about the interest and penalties that will be imposed once this error has been reported.

Data analytics

API is considering how it can use its customer data, which is currently very limited, to enhance the visitor experience. Currently API collects basic information such as customer name, age, address, and phone number for online ticket sales. From this information, API has been able to gather data on the number of visitors by day separated by age group. Management is hoping this will help staff different areas of the park more efficiently.

In addition, the company would like to understand what other information it should gather to help with other operational and investment decisions. In an effort to gather more information on in-park spending, API randomly surveyed visitors leaving the park at the end of the day. This was done by API employees three times each month, during each month of operations. The survey looked at food and merchandise purchases made to see which guests were most likely to make additional purchases once inside the park.

API also conducted a survey of past season pass holders to find out the reason they did not renew for the year. Respondents were asked to choose from the following reasons: attractions were not appealing; line-ups were too long; price was too high; safety concerns; time constraints/not enough time to visit the parks. API would like to use the results of the survey to make improvements to their offerings in order to ensure more season pass renewals.

Financial reporting and budgeting

API follows ASPE for financial reporting purposes and prepares annual budgets, both by park and for the entire company. API uses the taxes payable method of accounting for corporate income taxes. API's auditors, Davidson & Van Heusen LLP, have been preparing the company's audited financial statements since the company became incorporated. The 2023 audit was completed in April 2024. API's corporate bank, London's Bank, and R&W Bank, both receive a copy of the annual audited financial statements.

The company has no defined dividend policy, and the last dividends were paid in 2018.

Banking and financing

API has its corporate bank accounts and a term loan with London's Bank. The following loans are outstanding:

- Term loan — London's Bank: The term loan for $85.5 million was initially advanced in 2018 and matures in 2033. Interest at 6.5% is payable monthly, and there is an annual principal payment of $5.7 million payable each November 30. The debt is secured by all of API's property, plant, and equipment.
- Loan — R&W Bank: This loan for $15 million was initially advanced in August 2020 to help finance the business during the pandemic when the parks were closed intermittently due to provincial regulatory requirements. The loan bears interest at 11%, which is payable monthly, and the full amount of the principal is due at maturity. Earlier payments can be made at any time with no penalties, and the company made a principal repayment at the end of 2022 of $6 million. The loan matures in August 2026 and is secured by all the shareholders' personal guarantees. In addition, there are two covenants. The first is a financial covenant that requires API to maintain a ratio of interest-bearing debt to EBITDA of not more than 3.0. This limit was recently renegotiated and is effective for December 2023 to August 2026. The second covenant is that dividends cannot be paid while any balance to R&W is still outstanding. If either of the covenants is breached, the full amount of the loan still owing becomes payable immediately.

The company has found two alternative sources of funds for any new long-term investments. The terms and conditions proposed for each alternative are provided in Appendix V.

Board meeting dialogue

The board met on June 3, 2024. Prior to the meeting, a briefing was distributed to the board members on the four new projects that had been discussed at earlier meetings:

- Invest in a start-up travelling carnival, Great Eastern Amusements (GEA)
- Invest in Canadian High Arctic Immersion Experience
- Invest in indoor theme park in Georgian International Hotels Inc. (GIH)
- Pursue Willow Lakes Amusement Park Inc. (WLAP) joint arrangement

The meeting's agenda was announced as follows:

1. Consider the four proposed strategic alternatives.
2. Discuss any other business.

Excerpts from the discussions that took place are detailed below.

Jacob: Thanks for coming today. I think that we are at a turning point for the company and want to stress how important it is that we all keep an open mind about the future direction we need to take. I do not believe that we can reach our pre-pandemic revenue levels without changes in our strategy. Price competitiveness has increased, impacting the various pass prices we can charge, and attendance is decreasing at our two largest parks. This situation is not sustainable. We have lots of interesting proposals, so let's get started.

Natalie: I'll start. I believe we need to enter into the Maritimes. I think I have come up with a great idea of how to do so, and this proposal is just a natural extension of what API currently does. Many of the travelling carnival companies operating in this region ended up going out of business due to loss of revenues caused by the pandemic. I think there is now room for a new company to start up. Based on my research, I have put together a plan and forecast. For now, I have assumed that we would not sell any food and beverages, but rely on local food trucks to do so, although this might change in the future. I am also suggesting that we lease the rides and vehicles required for five years, which gives us a chance to test the market and see how we do.

Terri: This is a great idea! It helps to expand our name to the East Coast, since we can market this as part of the API group.

Kenneth: I don't see a future for growth opportunities in this segment of the market. We will have to compete with the current local competitors that are already known in the region and understand the business better.

Jacob: I'm concerned because we don't have any contacts in these provinces or experience in this type of travelling fair. We would have to rely on someone we have never worked with before to manage the division.

Natalie: My idea is to hire local people that used to work for the companies that have now shut down. I think there is a good supply of skilled workers and managers who would be interested, and we would hire an experienced manager to make the operational decisions. This is really no different from what we do now by hiring our park managers to manage each park.

Jacob: The business model is very different from our current one. Instead of enticing visitors to us, we have to entice municipalities and event planners to bring us to their venues. This is totally different from how we normally market. The biggest issue is getting new venues each week of the season and taking the amusements to each venue.

Kenneth: It may take years to get our name known and gain the confidence of the people who book these travelling carnivals and really understand the business. I would think that the people planning these events would want to work with companies that they know and trust to do a good job — after all, they only have the single event in the season and the carnival company can make or break the event.

Terri: I think we can convince these people to give us a try — after all, we know how to run the rides, provide a safe and clean environment, and create an atmosphere of family fun. This doesn't change with a travelling carnival.

Jacob: There are a lot of different risks with this type of business. There is no room for error in being late to a new location or having equipment breakdowns along the way. Everything has to work perfectly all of the time. I don't think that this can be managed from our head office in Vancouver. I am wondering if what we really need is an agent on the ground in the Maritimes that can promote the company better. We cannot just sit back and wait for the calls to come in.

Kenneth: There are all kinds of organizations that require these types of services, including municipalities, churches, schools, and other associations. Would we try to specialize to begin with? I would think that each of these types of events might require different approaches or subtle differences in the type of rides, depending on the age of the visitors.

Jacob: I see that there are games also to be provided. Currently, we don't have games in our parks, so we don't know much about providing games and prizes or how to price and cost these.

Terri: This might be a great way to learn about this type of revenue source, since I have been thinking for a while that we could have some games in our parks that would increase our in-park per capita spending.

Natalie: From my research, I have found that families are not looking for the expensive immersive thrill rides when they go to these fairs and carnivals. The simple, nostalgic type of ride is what they are expecting to see, which is right in line with what we sell.

Jacob: One more problem I see is the type of permits and licences that we need to operate this travelling show. On another note, since we have never had leases before, we need to get some guidance on how the leases should be accounted for. I will ask RLC to include this in their report. Kenneth, you are up next!

Kenneth: Thanks. I am so excited about this next proposal. It is a new immersive experience that will highlight the Canadian High Arctic and really appeal to tourists. It will be a 4D ride that combines 3D VR with a physical ride that provides the motion as well as other special effects to make the experience more realistic. And a Canadian company, Arctica Outerwear Company (AOC), is the one that approached us about making this happen. As you know, AOC is a great Canadian success story and sells various lines of clothing and outerwear. The CEO, who was born and raised in the Canadian Arctic, is very passionate about this part of Canada and wants to showcase it to tourists. As a result, he came to us with his idea.

Jacob: I love this idea. It will be our first foray into immersive experiences and will attract a new segment of visitors. If this works out, we can open similar venues all across Canada. And having the sponsorship with AOC is a win-win for both our companies. It will also help us to see how these sponsorships work and give us experience for making more agreements in the future.

Terri: This is a very expensive proposal, and I don't think we should be spending all of our investment dollars on a single attraction.

Kenneth: But it ties really well to promoting Canada. I think we can attract a lot more international tourists with this type of exhibit, and build up our international reputation, which right now is very weak.

Natalie: I agree with Terri. It is far outside our experience and knowledge. I don't think our management team has the experience to move into this type of venture.

Kenneth: I think you are forgetting that I had experience in VR production, so I do know something about this. And it is the way of the future — we have to have some of our attractions embracing new technology, rather just ignoring it. Young adults are crying out for these types of experiences, and I think it would also attract older tourists who are travelling without children.

Jacob: I see this as a step in the right direction for many growth opportunities. It gives us experience working with a great VR production company and maybe down the line we could even partner with them for other unique and immersive attractions in our two large parks. It is an easy way to test this concept.

Terri: We will be too tied with AOC with this venture. We will now have to buy all of our clothing from them and their name will be prominent on the venue. What happens if their reputation is tarnished in any way? Our reputation will also be tainted.

Natalie: And we are reliant on AOC for the leased premises, so as landlord, they might force us to make improvements or other changes that are not in line with our wishes. I just think they will have too much control over us.

Terri: What will our suppliers think, the ones that have provided us with clothing for years? And remember, these suppliers don't supply only clothing for our stores, but a lot of our other merchandise also. There may be repercussions from our existing suppliers in that they might charge higher prices or be less responsive to our orders or needs. The merchandise clothing sold in our stores represents the major portion of these supply agreements.

Jacob: What no one has mentioned yet is that this will be year-round and indoors, which helps even out our revenues over the year.

Natalie: I am wondering if there are any different safety concerns and liability issues that arise with having 4D rides? We really don't have the experience to maintain these 4D rides. How quickly do they break down, and how quickly can they then be repaired if something happens with either the VR production or the physical equipment?

Kenneth: I've done some preliminary research on the emerging technologies, but perhaps we should have RLC perform additional research to better understand the field of VR and the trends in the industry.

Terri: If it doesn't work out, we will be well behind in capital investments in our other parks, having spent all of this money on a single attraction. How about we move on to my proposal, which I think everyone will support?

Jacob: Okay, let's move on. Terri?

Terri: I have a great proposal that is right in line with how we want to expand and grow. It is an agreement with Georgian International Hotels Inc. (GIH) to manage an indoor amusement park at their downtown Calgary hotel. As you know, GIH is part of a very well-known hotel chain in Canada and internationally. GIH is Canadian owned, as we are. They want the type of amusement park that we know how to manage and want to attract the same target market as we do. We are both very aligned on what the amusement park will look like! This expansion is just so perfect for us.

Natalie: I agree. GIH wants the same classic rides and family fun that we provide, and that Terri and I believe differentiate us from the other competitors. This is why GIH approached us.

Kenneth: Even though it sounds good, there are a lot of items that GIH seems to have control over, and many of these items should be our operating decisions. It also seems that GIH will blame us for any and all complaints or bad comments that might arise.

Jacob: And along those lines, I do not even know these people. We don't know their management style, such as how difficult or easy they are to work with, and how easy it will be to resolve conflicts. If we agree to this, I think we will lose autonomy on managing this park.

Terri: Jacob, you and I have been in business long enough to be able to work with difficult people. I think we will be able to work out whatever differences we have. And they do need us — there is not another Canadian-owned amusement park company that is of the size and experience to build and manage such a park. That is why they have sought us out.

Natalie: Remember, this is only a first draft of the agreement. I think with subsequent meetings and redrafts of the agreements, we will come to a better understanding for how they operate.

Kenneth: A 90-day termination notice is not going to be enough time for us to dismantle and remove all of these permanent rides safely and without damage. And we need a better understanding of what proper cause would be. And what would we do with used rides? This is a high risk for us.

Natalie: I don't think we can walk away from this. It is a great opportunity that I would not like to see go to one of our competitors.

Jacob: I don't like that API will be held responsible for any accidents that occur at the amusement park. I can see us being responsible for ride accidents, but what about accidents caused by the building maintenance? GIH is responsible for building issues and is getting a high administration fee for this. We need to clarify exactly what we will be responsible for; otherwise, it is a nonstarter for me.

Terri: I am sure this can be all worked out. Look what we are getting — we will be co-branding with a very well-known Canadian company, and this will go a long way to building our reputation both within Canada and internationally. This is worth a lot to us.

Kenneth: My last comment on this is that I have no idea what the impact of operating rides indoors will be. There will definitely be sound and lighting issues that we will have to overcome so that these do not detract from the visitors' enjoyment. It may be that certain rides should not be used indoors and others that are specifically designed for inside use. I will definitely have to do some research in this area.

Natalie: One positive feature is that we will be hiring full-time staff, so this should make staff easier to manage and train. It should also ensure even better customer service, since the staff will be more experienced and better able to handle all of the visitors' demands.

Terri: I also think having a sixth amusement park will elevate our presence in the industry and will give us more power with the suppliers because we will be purchasing greater volumes. We may be able to negotiate further discounts.

Jacob: My turn now. Raoul Dallaire, an old friend that I worked with many years ago and have stayed in touch with, recently approached me about a very interesting proposal. The company he works with, Willow Lakes Amusement Parks Inc. (WLAP), is interested in expanding into Canada and wants to partner with us in owning and managing Aqua Bleu. There are still many legal details to work out, but the highlights are that this would be a joint arrangement between our two companies. WLAP would invest new capital, and we would use this to build the immersive attractions that young adults are looking for. This is a great opportunity for API! I would work closely with Raoul, who is WLAP's Canadian manager. We could learn a lot from Raoul.

Kenneth: This is a terrific proposal and will allow us to invest in the types of attractions that we need to be more progressive and embrace the trends for the future. It also gives us a way to gain experience with purchasing and maintaining these types of attractions so we are better prepared when we make similar investments in our other parks.

Terri: I am totally against this. I know they are projecting big improvements in the attendance numbers, but honestly, I think we can get there ourselves. You know how long it takes for parks to get well known enough that the attendance numbers are high, and Aqua Bleu has not had enough time. We only opened in 2019 and then the pandemic hit. I think with time, we can achieve these forecasts and not have to share the profits with anyone.

Kenneth: But the rides and attractions at Aqua Bleu are not the "right" ones to attract the target market we had in mind for this park. Young adults are looking for unique, exciting, and immersive attractions at the parks, and we just don't have the access to capital to make this happen — but WLAP does. We will never achieve these attendance numbers without this kind of investment.

Natalie: I agree with Terri. Don’t forget, we are appealing to families who want the classic amusement park. Putting in these new attractions will be contrary to what our branding has been. And I really don’t want to partner with a large public company that will want everything their way.

Terri: I also don’t like that this park will now be under the WLAP banner when we constructed it from the ground up. We put a lot of effort and creative thought into that park and now we are simply just selling it off.

Natalie: I don’t like that WLAP has full control over the marketing and branding of the park. How we are portrayed in these marketing materials may negatively impact our reputation by confusing the message. Will people think that we no longer own these parks or that we no longer have the classic parks?

Terri: And to add to that, WLAP is a U.S. company — it is not Canadian owned and operated. This will further confuse our branding and name recognition.

Jacob: I particularly like the idea of the Quebec theme to differentiate the park. To achieve this, I think Raoul’s experience will be vital.

Terri: Being a publicly traded company, WLAP will also have different objectives and they may force us to compromise on safety and guest services or other operational decisions in order to ensure the profits forecasted are being met.

Kenneth: Two final thoughts on this — I like that we will have a partner from whom we can learn how to purchase and maintain these new immersive attractions. It will certainly make my job easier when we go to add these types of rides in our other parks. Secondly, I have been saying for years that we need to update our data analytics software and data management, and I am keen to learn the data that WLAP captures and how they use it. I will then be in a better position to implement similar systems across our other parks.

Jacob: The only concern I have is that the valuation for the net assets of Aqua Bleu looks low. I would like to have RLC prepare an asset-based valuation of Aqua Bleu’s net assets to validate the fair market value being used by WLAP. I also want them to comment on how this arrangement should be accounted for and any tax implications. Let’s switch gears now to the other issues. Natalie, why don’t you start?

Natalie: Thanks, Jacob. Since implementing the new payroll system, I have heard numerous complaints from employees about it. I would like RLC to determine the current weaknesses of the system, implications of the weaknesses, and recommendations for improvements to ensure employees are paid correctly.

Terri: I would also like RLC’s help with an issue. I am very interested in API becoming more environmentally conscious and reducing its impact on the environment. I’d like RLC to provide us with some suggestions on goals and actions that API might take in order to accomplish this and what preliminary steps might be required to institute this program.

Jacob: Divya and I met this week, and she informed me about an error in API's 2022 corporate tax return. She would like RLC to determine the amount of taxes owing, if any, the amount of penalties and interest that could be imposed, and what API's next steps should be. The 2022 and 2023 corporate tax returns were all filed on time and the amount owing for 2023 was also paid on time.

Switching gears to another issue, I have been assessing whether the company should outsource its pizza concession stands in the parks to Zucarelli's Pizza Inc., a well-known chain of pizza restaurants that operates only in Canada and is found across the country. I've had some preliminary discussions with Larry Zucarelli, the owner of Zucarelli's Pizza, who is very interested. I would like RLC to determine if API should outsource or not.

Kenneth: Before we end this meeting, I have a serious issue to discuss. Just this morning, it was brought to my attention by the park manager at Sparkle Amusement Park that three employees were allowing children not meeting the height, weight, or age restrictions to take the rides. They were receiving bribes from the parents to do so. In addition to that, there were five other employees who knew about this infraction but failed to report it. I would like RLC to give us some guidance on how we should handle this issue for everyone involved. Right now, the three employees have been asked to stay home until we determine our next steps. Based on discussions with these employees, the bribes added up to several thousands of dollars. These employees started to work for us in 2023 as licensed operators of the rides, but said they only started to allow children to ride and take the money in 2024.

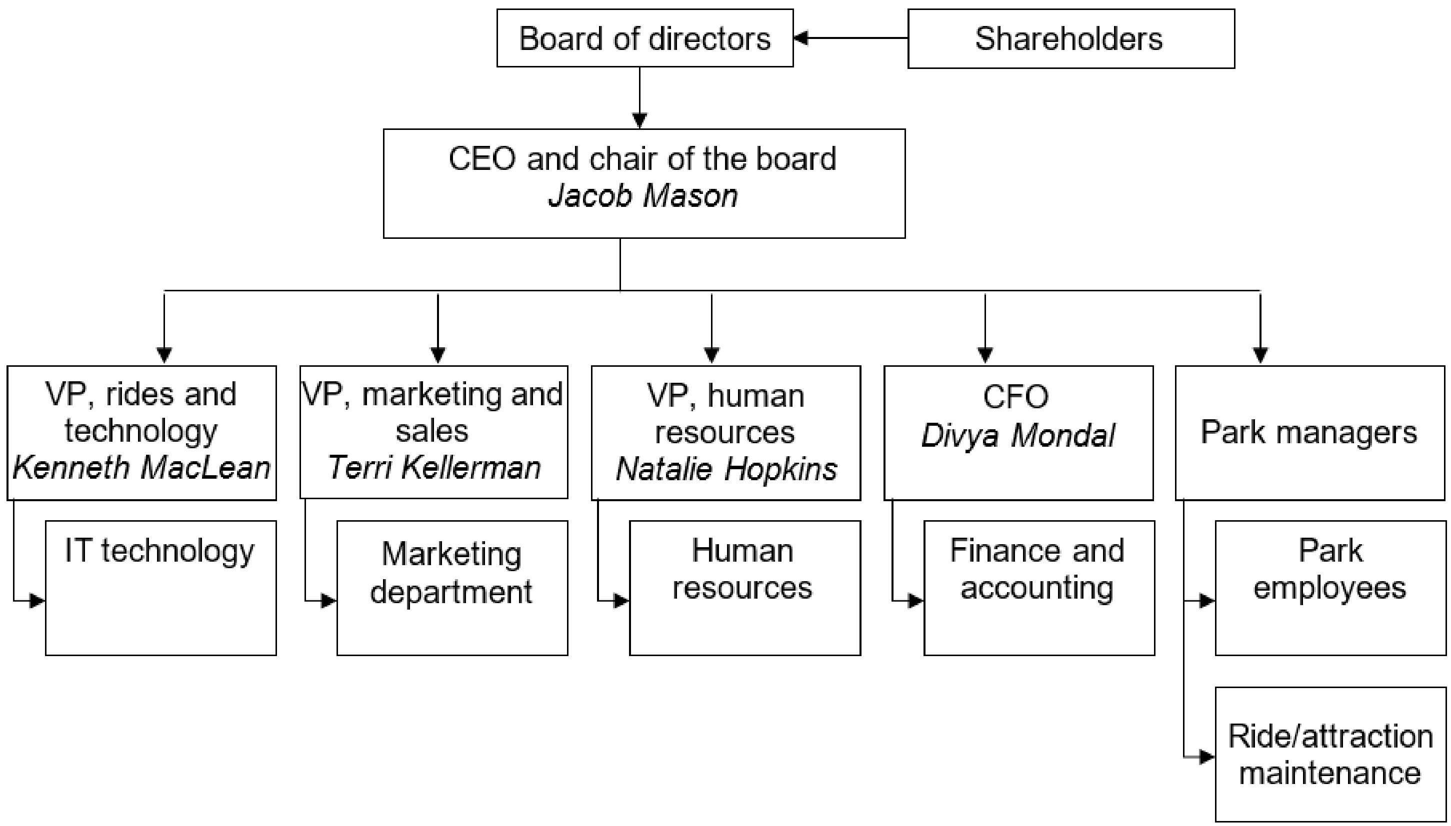
Jacob: This is very alarming, and we will have to act very quickly to show our employees how seriously we take this. I think we also need to put a Safety and Park Risk Assessment Committee in place. I would like RLC to give us some guidance on the advantages of having such a committee, what types of risks are we exposed to, how we set this committee up, who should be on it, and what the objectives and actions taken by this committee should be.

Additionally, we need assistance with the data we are collecting. We've identified risks with the employees, and now I am concerned about risks with the data we are collecting from our customers. And how can we use this data to gain additional insights into our customers?

I will contact RLC and ask them to get started and also let them know of these additional issues that we need addressed in their report.

Table of appendixes

Appendix I
Organizational chart
Prepared by Divya Mondal



Appendix II
API financial statements
Prepared by Divya Mondal

Amuzu Parks Inc.
Statement of Earnings and Retained Earnings
For the years ended December 31
(under ASPE)
(in C$'000s)

	AUDITED 2023 ($)	AUDITED 2022 ($)	AUDITED 2021 ($)
Revenues			
Park admission	54,475	45,940	31,550
Park food, beverage, and merchandise	29,601	30,930	20,730
Total revenue	84,076	76,870	52,280
Expenses			
Park operating expenses	38,179	34,822	24,153
Cost of goods sold — food, beverage and merchandise	9,219	8,815	5,970
Marketing and advertising	4,879	4,612	2,719
Amortization	13,175	12,275	11,775
General and administrative	7,007	8,150	8,060
Total expenses	72,459	68,674	52,677
Operating income	11,617	8,196	(397)
Interest income on cash equivalents	65	45	32
Interest expense — loan — London's Bank	(4,045)	(4,416)	(4,786)
Interest expense — loan — R&W Bank	(990)	(1,650)	(1,650)
Income before taxes	6,647	2,175	(6,801)
Income taxes	(2,155)	(736)	2,044
Net earnings for the year	4,492	1,439	(4,757)
Opening retained earnings	20,401	18,962	23,719
Closing retained earnings	24,893	20,401	18,962

Appendix II (continued)
API financial statements
Prepared by Divya Mondal

Amuzu Parks Inc.
Balance Sheet
As at December 31
(under ASPE)
(in C$'000s)

	AUDITED 2023 ($)	AUDITED 2022 ($)	AUDITED 2021 ($)
Assets			
Current assets			
Cash and cash equivalents	10,180	7,250	6,150
Income taxes receivable	-	-	2,044
Inventories — merchandise for sale	1,106	1,146	836
Prepaid — spare parts for equipment	2,596	2,259	2,209
Total current assets	13,882	10,655	11,239
Property, plant, and equipment — net	105,196	105,571	111,146
Total assets	119,078	116,226	122,385
Liabilities			
Current liabilities			
Trade payables and accrued liabilities	6,151	4,586	2,643
Income taxes payable	1,419	736	-
Deferred revenue	8,615	6,803	5,380
Current portion — loan — London's Bank	5,700	5,700	5,700
Total current liabilities	21,885	17,825	13,723
Term loan —London's Bank	51,300	57,000	62,700
Loan — R&W Bank	9,000	9,000	15,000
Total liabilities	82,185	83,825	91,423
Shareholders' equity			
Share capital —120,000 common shares outstanding	12,000	12,000	12,000
Retained earnings	24,893	20,401	18,962
Total shareholders' equity	36,893	32,401	30,962
Total liabilities and shareholders' equity	119,078	116,226	122,385

Appendix II (continued)
API financial statements
Prepared by Divya Mondal

Amuzu Parks Inc.
Statement of Cash Flows
For the year ended December 31
(under ASPE)
(in C$'000s)

	AUDITED 2023 ($)	AUDITED 2022 ($)
Operating activities		
Net income for the year	4,492	1,439
Amortization	13,175	12,275
Change in working capital balances		
Income taxes receivable	-	2,044
Inventories	40	(310)
Prepaid expenses	(337)	(50)
Trade payables and accrued liabilities	1,565	1,943
Income taxes payable	683	736
Deferred revenue	1,812	1,423
Total cash flow from operating activities	21,430	19,500
Investing activities		
Investment in property, plant, and equipment	(12,800)	(6,700)
Financing activities		
Repayment of loan — London's Bank	(5,700)	(5,700)
Repayment of loan — R&W bank	-	(6,000)
Total cash flow from financing activities	(5,700)	(11,700)
Change in cash	2,930	1,100
Opening cash and cash equivalents	7,250	6,150
Closing cash and cash equivalents	10,180	7,250

Appendix III
EBITDA and capital employed by park
Prepared by Divya Mondal

	Total revenue ($)	Direct costs for park operations and cost of goods sold[1] ($)	Park EBITDA ($)	Capital employed ($)
Magical Land*	37,363,597	22,277,060	15,086,537	41,261,101
Splash N Fun Water Park**	14,635,500	6,635,720	7,999,780	13,599,389
Sparkle Amusement Park**	9,132,300	4,265,820	4,866,480	13,025,468
Aqua Bleu Parc*	15,895,770	10,427,560	5,468,210	20,661,616
Dinoland Amusement Park**	7,048,470	3,791,840	3,256,630	8,582,415
Head office				8,066,011
	84,075,637	47,398,000	36,677,637	105,196,000

* Large park

** Small park

Note 1: These amounts represent the portion of the total park operating costs and the cost of goods sold to each specific park. The total of $47,398,000 is the sum of the total of park operating expenses of $38,179,000 and cost of goods sold (COGS) of $9,219,000 from the statement of earnings. Marketing and advertising, and general and administrative expenses, are considered common costs for API and are not allocated to each park for internal analysis purposes.

Appendix IV
Industry benchmarks
Prepared by Divya Mondal

	2023 industry average
Annual revenue growth rate	8.3%
Current ratio	1.1
Quick ratio	0.65
Cash and cash equivalents to deferred revenue	1.2
Days in inventory	45 days
Deferred revenue at year-end as percentage of total admission revenues	22.1%
Total debt to total assets	0.52
Interest-bearing debt to EBITDA	2.1
Return on assets	6.2%
Cost of goods sold — food and merchandise, as a percentage of product sales	26.60%
Park operating expenses as percentage of total revenues	43.50%
Operating profit margin	17.00%
Net profit margin	9.00%
Wages and salaries as a percentage of revenue	35.20%

Appendix V
Financing alternatives
Prepared by Divya Mondal

1. London’s Bank term loan refinancing proposal

London’s Bank is prepared to refinance the original loan, with a current balance of $57,000,000, and increase the total loan amount to $65,000,000. The refinancing would occur on July 1, 2024, and the existing loan will be settled on that date. The amount of principal due annually on November 30, starting in 2024, will be $6,500,000. Interest on this loan will be 9.0%, payable monthly. The loan will be secured by all the assets of API. In addition, there is a covenant that total interest-bearing debt can be no more than 2.5 times EBITDA. If the covenant is breached, the loan becomes due immediately. The loan will mature on November 30, 2033.

2. Issue new common shares to WLAP

WLAP has offered to purchase 18,000 common shares of API for a total of $10,000,000 but only if the WLAP joint arrangement is accepted. If the arrangement is accepted, the common share issuance will occur any time prior to December 31, 2024. As a shareholder, WLAP will appoint Raoul as a director on the board with one vote. Raoul will not have a management position at API but instead will manage Aqua Bleu on WLAP’s behalf.

Appendix VI
Great Eastern Amusements proposal
Prepared by Natalie Hopkins

The proposal is to start up a travelling amusement company, which I am naming Great Eastern Amusements (GEA) for now. This division would be a travelling carnival providing carnival rides and midway games at various locations in Nova Scotia, PEI, and New Brunswick. The company would move throughout the three provinces, stopping for short periods of time of seven to 10 days in each town. It would operate from late May to late September (18 weeks in total) and employ 30 full-time seasonal employees from the Maritimes.

Communities that are hosting fairs or other events would schedule the carnival to be part of these events. Scheduling and bookings would be completed during the winter months, and the group would travel to a different location each week. We would market this similar to our current marketing of “providing classic family fun for all ages.”

Entrance to the carnival is free, but tickets for rides will be sold at the ticket booth at the entrance to the park for $2.00 each. The number of tickets required for a single ride would be three for kiddie rides and five for all other rides or games. Bracelets would also be sold for $50 per day that would give the holder access to unlimited rides and games for the entire day.

Estimates of attendees are as follows:

	2025	2026	2027	2028	2029
Attendees purchasing tickets (assuming each attendee will buy 30 tickets)	8,300	10,400	17,800	18,900	19,400
Attendees purchasing bracelets	85,600	87,900	95,600	102,100	105,400

The amusement rides will include classic rides for teenagers and adults such as a carousel, a haunted house, bumper cars, and a ferris wheel. There would also be a small train and six other gentler rides for younger children. Rides built for travelling carnivals are smaller than our permanent ones and easy to set up, take down, and transport from one location to another.

Appendix VI (continued)
Great Eastern Amusements proposal
Prepared by Natalie Hopkins

Initial capital costs include costs for the amusement rides, trucks for hauling the equipment, and vehicles to transport employees. The proposal is for API to lease this equipment for five years.

1. Lease payments from the manufacturer are $298,000 in total, payable annually on January 1, starting in 2025. At the end of the five years, there is a guaranteed residual payable of $200,000. The interest rate implicit in the lease is 10%, and the fair market value of the equipment at the beginning of the lease is $1,600,000. The rides have a useful life of eight years. At the end of the lease, the equipment will be returned to the lessor.
2. We will also need a number of semi-trailer trucks, each consisting of a tractor and one semi-trailer or flatbed, and some vehicles for the employees. These can be leased for five years. The total payment is $345,800, payable annually at the beginning of the year with the first payment due on January 1, 2025. There is a guaranteed residual of $375,000 at the end of the lease. The trucks and vehicles have a useful life of seven years. The implicit rate in the lease is 9%, and the fair market value of the trucks and vehicles at the beginning of the lease is $2,100,000. At the end of the lease, the trucks and vehicles will be returned to the lessor.

There will be capital costs of approximately $1,000,000 for other equipment that will be spent at the beginning of 2025 with a useful life of five years. This equipment will qualify for 20% declining-balance CCA and the accelerated investment incentive of 100% CCA in the first year of use.

Estimates of annual costs include the following:

- Thirty full-time staff, paid an average seasonal salary of $32,000 and benefits of 25% of their salary. This includes 20 qualified truck drivers and four qualified ride technicians to maintain and inspect the rides. Salaries and benefits will increase at 3% annually, which is the expected inflation rate.
- Two additional people at head office to manage the bookings, scheduling, and additional administrative work required, at an annual salary of $35,000 each plus benefits at 25% of their salary. This salary and benefits will increase annually at the expected inflation rate.
- Vehicle costs, including fuel and maintenance on the trucks and vehicles, totalling $1,246,000 each year.
- Total operating costs for the carnival, including maintenance, hydro, insurance, travel and hotel accommodations, and so on, is expected to be $1,092,300 annually.
- Marketing and advertising will be $450,000 in 2025, $350,000 in 2026, and $150,000 thereafter.

Appendix VI (continued)
Great Eastern Amusements proposal
Prepared by Natalie Hopkins

The company pays taxes at 27%, and the required rate of return for this proposal is 13%.

Appendix VII
Canadian High Arctic Immersion Experience
Prepared by Kenneth MacLean

I have a friend who works for Arctica Outerwear Company (AOC), a Canadian national clothing manufacturer, specializing in clothing and subzero outdoor wear. AOC is looking to sponsor a 4D VR attraction that would showcase the Canadian Arctic and AOC's line of winter clothing. Because AOC's head office is in Winnipeg, it wants this new immersive attraction to be located in downtown Winnipeg. My friend suggested that I meet with the CEO of AOC, Lawrence Winters, which I did last week. And he has a terrific idea!

Lawrence is an Inuit man who grew up in Apex, a small community that is part of Iqaluit, Nunavut. Although he lives in Winnipeg now, Lawrence still spends time in the Arctic visiting his family. Being from Nunavut, he sometimes hears an outside perspective that the Canadian Arctic must be cold and barren. Lawrence would like to show that there is beauty when one looks in the right places. The proposal is that AOC would co-sponsor with us the creation of a 4D immersive experience, called the Canadian High Arctic Immersion Experience, where individuals could experience the Canadian High Arctic without incurring the significant costs of travelling there.

The immersive experience would include a physical ride that would provide the motion in a space that is set at a subzero temperature so that visitors can feel the cold, but each person would also wear one of AOC's coats as part of the experience. The VR technology would include a 3D video to be produced by an experienced VR firm that would be hired to create this one-of-a-kind immersive experience.

We want to give the visitor the experience of visiting the Canadian Arctic and see what makes it truly special. For example, Lawrence's idea is to showcase the wildlife, including polar bears, caribou, bowhead whales, and beluga whales; the landscape of Baffin Island, Victoria Island, and the coastline; and the famous mountain peaks of Auyuittuq National Park. What would make this different is that all of the senses would be involved — we would build a physical exhibit in the cold climate-controlled room that would include special effects to involve the senses of touch and smell as well as sight and sound. The motion of the ride would give the visitor an experience of being on a boat to see the aquatic animals, being on a dog sled, and walking on ice floes. As part of the production crew, Lawrence would like us to engage Indigenous consultants that live in the Arctic to not only help with the 3D filming but also to give insight into the culture of the people and to provide feedback on the ride's authenticity.

The stages involved in this process would include planning and storyboarding, deciding how to blend all of the elements we want, and production. It would encompass a multi-faceted team of experts.

Appendix VII (continued)
Canadian High Arctic Immersion Experience
Prepared by Kenneth MacLean

This virtual experience has many advantages, including: (1) it allows people who cannot travel due to financial or mobility reasons to experience the Arctic; (2) this environment is very fragile and impacted by climate change, and it would help to protect the environment from further damage; and finally, (3) it can minimize the carbon footprint, as travel is not required.

AOC has proposed the following contractual agreement that would initially be for five years, with extensions if agreed to by both parties.

- The VR production itself is expected to cost up to $8 million. API will pay a maximum amount of $5 million, and AOC will contribute the remaining amount up to a maximum of $3 million. API will have ownership of the VR production assets at all times. In return, AOC wants input at all stages of the VR production and to have its name listed as a sponsor of the production.
- During the term of the contract:
    - AOC will lease part of the street-level floor of its building to API to house this new immersive experience. The building is located in downtown Winnipeg and is close to many other tourist attractions in the city. The lease will have an initial term of five years, which can be extended in line with this overall agreement. The annual lease payment is $820,000, which includes heating, utilities, and property taxes.
    - API has the right to sublet a portion of the leased space in this building to a restaurant that will sell Canadian food, beverages, and alcohol.
    - AOC will supply the coats to be worn as part of the experience at no cost to API and will replace them as needed.
    - In return, API will purchase all its employee uniforms from AOC during the term of this contract. The uniforms include shirts, coats, and hats. Each article will have the normal AOC logo (which is a small Arctic bird about an inch square that is printed on the sleeve or pant leg of the garment), but API may also imprint its logo on every article of clothing.
    - API also agrees to purchase all the clothing sold in its stores solely from AOC. No other clothing supplier can be used.
    - AOC reserves the right to add more promotional material at various points around the amusement parks if it is felt that the exposure is less than anticipated.

I have also had preliminary discussions with my previous employer, who is internationally renowned for this kind of VR production work. He is very excited about this concept and has agreed to work with us if the proposal is accepted.

Appendix VII (continued)
Canadian High Arctic Immersion Experience
Prepared by Kenneth MacLean

If we start now, it will take about a year to complete the production and construction of the space, and I have estimated that we should be ready to open in July 2025. However, we would start the lease on January 1 in order to have access to the facility to start construction of the physical part of the attraction.

I have estimated that the admission price will be $45 per person based on research of similar immersive experiences, and the number of visitors is expected to be as follows:

	2025	**2026**	**2027**	**2028**	**2029**
Number of visitors	100,000	200,000	250,000	300,000	350,000

For the restaurant, I have a few potential restaurants in mind that are well known and serve “Canadian Arctic” food. I have estimated that the sublet arrangement with this restaurant will be that it pays a fixed rent of $100,000 and then a variable portion equal to 15% of gross revenues of food and beverages sold in the restaurant. I have estimated that each visitor will spend an average of $20 per person in the restaurant.

API will spend the following for the VR production:

- $2,550,000 for the production of 3D film (30% CCA rate — declining balance)
- $1,950,000 for computer hardware and systems software (55% CCA rate — declining balance)
- $500,000 for applications software (100% CCA rate — declining balance)

API will spend the following for the physical part of the attraction:

- $3,000,000 for additional equipment for the physical part of the attraction (20% CCA rate — declining balance); at the end of five years, the additional equipment for the physical attraction can be sold for proceeds of $450,000
- $1,000,000 for leasehold improvements (straight-line over five years)

In 2025, during the phase-out period for the accelerated investment incentive for declining balance CCA classes, the half-year rule is suspended.

Additional expenses are estimated as follows:

- Annual operating costs will be $2,800,000.
- New VR headsets and other small hardware will cost $800,000 annually.

Appendix VII (continued)
Canadian High Arctic Immersion Experience
Prepared by Kenneth MacLean

- For full-time staff, we can move one of our current managers working at head office to manage this new attraction and just redistribute his current workload. His current salary is $150,000. We will need to hire an assistant manager at $80,000 annually, four qualified programming and mechanical engineers at an annual salary of $120,000 each, and 20 support staff at an average annual salary of $35,000 each. There will be benefits at 25% of the salary cost. The salaries will increase at the expected 3% inflation rate annually.
- Marketing costs will be $1,200,000 annually.
- Currently we pay $100 per employee per year for their uniforms, and this is expected to be $200 per year when purchasing AOC clothing, which is much better quality.

The required return for this proposal will be 15%.

To help understand these new emerging and transformative technologies, I have found the following resources:

1. Stephen Johnson, "Immersive Technology Will Revolutionize Everything from Theme Parks to Daily Life," *Big Think,* July 22, 2021, https://bigthink.com/the-future/immersive-technology/
2. Nick Dauk, "Inside the Futuristic Tech Travel Trend that Could Make Your Next Trip Truly Out of this World," *Euronews*, November 11, 2022, https://www.euronews.com/travel/2022/11/11/inside-the-futuristic-tech-travel-trend-that-could-make-your-next-trip-truly-out-of-this-w
3. Bea Mitchell, "6 Attraction Technology Trends for 2020: VR, AR, AI, Bots and Esport," *blooloop,* January 30, 2020, https://blooloop.com/technology/in-depth/attraction-technology-trends-2020/
4. "Eight Emerging Technologies and Six Convergence Themes You Need to Know About," PwC, January 12, 2022, https://www.pwc.com/us/en/tech-effect/emerging-tech/essential-eight-technologies.html
5. Michael Mascioni, "New Horizons for Immersive Experiences in Leisure Facilities," *Planet Attractions*, January 11, 2022, https://www.planetattractions.com/news/New-horizons-for-immersive-experiences-in-leisure-facilities/908

Appendix VIII
Indoor theme park at Georgian International Hotels Inc. (GIH)
Prepared by Terri Kellerman

I was recently contacted by Sheri Halston, the manager at the Georgian International Hotels (GIH) in Calgary. The company wants to build an indoor amusement park attached to its downtown Calgary hotel and is looking for a Canadian-owned company to partner with for this project. As GIH wants to attract families, Sheri wants the park to be similar to API's existing parks in that they contain "classic" rides and are fun for families and children up to 15 years old. The rides in this indoor park will be similar to those used in the outdoor amusement parks. I met with her, and below is her summarized proposal.

This would be a management contract between GIH and API. The agreement would initially be for seven years, which is the expected life of the equipment. GIH would build, own, and maintain the space, and API would purchase, replace, and maintain the rides; sell food and beverages; and staff, manage, and operate the park. Highlights of the first draft of the proposed arrangement follow:

- In return for the space, joint marketing campaigns for international exposure, use of the GIH name in promotional materials, and administrative assistance, API will pay 60% of the net operating profits before tax as an administration fee to GIH. However, this annual fee would be no less than $3 million annually. A partial payment of $2 million will be due annually on July 1, and the remainder will be paid in full no later than January 31 of the following year.
- GIH will pay for all the operating costs related to the building, including electricity, heating, maintenance, and property taxes.
- API will have full control over staffing and day-to-day operations of the park. The park will be open 365 days a year. However, GIH management will regularly inspect the premises to ensure they are well maintained and up to GIH's high quality standards, and any deficiencies found will be required to be immediately rectified by API at its expense.
- Although there is no requirement that the park have a theme, API is encouraged to do so. GIH would need to approve the theme, to ensure it is in line with the GIH brand. Assuming a theme is selected, GIH would be agreeable to decorating some of its rooms to be in line with this theme, giving visitors a total immersive overnight experience.
- GIH will have final approval on marketing materials that mention the GIH name to ensure they are consistent with GIH messaging.
- API will be solely liable for any accidents that occur within the theme park space.
- For the food served in the park, GIH will select the chef and approve the menu in order for the food to be of the high quality consistent with GIH's other restaurants.

Appendix VIII (continued)
Indoor theme park at Georgian International Hotels Inc. (GIH)
Prepared by Terri Kellerman

- GIH will have the right to examine the records related to the operations of the theme park at any time with no notice required. If required, GIH may request a third-party audited report of the operations.
- Any complaints about the park made to GIH management or written on the various social media and hotel rating sites will be required to be immediately followed up by API management with a full written report to GIH as to how the complaint or poor rating has been managed and rectified.
- This management arrangement may be terminated by either party with 90 days' notice, with proper cause.
- In the case of termination, API will bear all the costs of dismantling and removing the rides.

Construction of the park will commence in 2024, and the park should open January 1, 2025. In discussions with Sheri, I have also made some estimates of revenues and costs. The forecasts for the number of different visitors is 60,000 in 2025, 82,000 in 2026, and 100,000 for 2027 and thereafter. Of these numbers, I estimate that 35% will purchase a year-round pass for $250 per year each and are likely to visit five times per year, on average. For the remaining 65% of visitors, they will visit the park one time and pay the single-day pass rate of $55.

We will also host parties and other group events, which I have estimated would be priced at a flat rate of $475 per party for up to 10 people. I am predicting that we can host 50 parties each year for 2025, 100 parties for 2026, and 200 annually for 2027 and thereafter.

For food, I am assuming that each time a person visits the park, they spend, on average, $15 per person for food.

API will need to invest $7 million in the rides initially, and then another $3 million in 2029 and $1 million each year for 2030 and 2031. The rides will qualify for 20% CCA declining balance and 1.00 times the CCA in the year of acquisition for 2025 and then only 50% in the first year for the acquisitions made in 2029 and thereafter.

Expenses are estimated as follows:

- Park operating expenses: 45% of total revenues
- Cost of food and beverages: 26% of food and beverage sales
- Our own API marketing: $650,000 annually

Divya has stated that this project will require a 12% return.

Appendix IX
Willow Lakes Amusement Parks Inc. proposal
Prepared by Jacob Mason

I have been approached by Willow Lakes Amusement Parks Inc. (WLAP) regarding an interesting proposal for Aqua Bleu. WLAP is a large U.S.-based publicly traded company that owns and operates parks in many countries around the world. And now the company is interested in expanding into Canada in a big way. To show its long-term commitment to this project, WLAP wants to enter into a joint arrangement with API. The objective would be for API to manage the park, but it would be rebranded under WLAP's name and marketed as part of its portfolio of parks, although API would also be mentioned as a partner managing the park.

I would work closely with WLAP's newly appointed Canadian manager, Raoul Dallaire, whom I know from my early career and have a lot of respect for. Raoul has worked in the industry since the 1990s and has held various positions at the three largest multinational amusement park companies in the world. He is originally from Quebec and is very excited about this proposal. He has many ideas on how the park can be improved to draw more visitors and significantly increase the attendance and profits and the park's profile in Canada. In fact, WLAP's plan is to make Aqua Bleu the premier park in Canada.

Although there are a lot of details to still work out, WLAP's preliminary draft of the agreement includes the following highlights:

- The legal format being considered is a partnership between API and WLAP. The partnership would own assets, have liabilities, earn revenues, and incur expenses. Operating, financial, and strategic decisions would require unanimous agreement.
- On January 1, 2025, API would transfer the net assets of Aqua Bleu into this new entity. WLAP has estimated the value attributed to these net assets to be $15 million, representing estimated market value. One market comparable approach to valuing an amusement park is using a range from one to two times revenue. Using this comparable market–based approach, amusement parks typically use a multiple of one to two on revenue to determine enterprise value, from which long-term debt is then deducted to estimate the value of the shares.
- WLAP would contribute cash of $25 million, which would immediately be used to invest in new rides and attractions that are more exciting, unique, and immersive to attract the young adult segment. These rides would be in addition to the existing rides, allowing Aqua Bleu to better cater to the various age groups.
- WLAP will also install its data analytics software to be used at Aqua Bleu, which will provide data to better understand the visitors and use of the attractions.
- API would continue to manage the park and in return would receive 45% of the net operating profits before taxes. WLAP would receive the remaining 55%.

Appendix IX (continued)
Willow Lakes Amusement Parks Inc. proposal
Prepared by Jacob Mason

- WLAP would market Aqua Bleu under its own brand name, as it is more widely known and has a reputation for providing “giant, exhilarating thrills for all ages, never to be forgotten.” WLAP’s parks are known to attract 18- to 34-year-olds.
- WLAP wants to theme the park around Quebec’s culture and history to differentiate it from the other large Canadian amusement parks. WLAP has successfully accomplished this with its other parks, and this is why Aqua Bleu is so appealing.

Raoul and I sat down to make some estimates for the next three years, and the assumptions are below:

- Attendance for 2025, 2026, and 2027 is expected to reach 70%, 75%, and 78% of Aqua Bleu’s maximum capacity, respectively.
- With the introduction of the new rides, the admission prices will increase, and add-on pricing will be used for the new thrilling and immersive rides, similar to pricing policies that WLAP employs in its other parks. On average, the in-park per capita spending per visit will be $40 for the admissions (which includes the revenues earned for the add-on sales) and $19.20 for food, beverage, and merchandise.
- The park operating costs will remain at the same percentage of the total revenues as API currently has.
- The cost of goods sold for the beverages, food, and merchandise will decline to 27% due to WLAP’s purchasing volumes discounts.
- Marketing costs will be increased to $1.75 million (from $0.75 million) annually for the three years.
- Current administration and general costs directly related to the management of Aqua Bleu is $2,189,200. (I don’t anticipate there would be much change in API’s total general and administrative costs, just a reallocation). This will increase with inflation annually.
- A new position will be created for Raoul. His salary of $350,000, including benefits, will increase with inflation, expected at 3%, and will now be paid as part of the park’s expenses.

Raoul has also indicated that with WLAP as a joint partner, he would be able to convince suppliers to give API similar discounts on products purchased for sale in its other four parks. Similarly, WLAP can also source equipment at a cost 15% less than the price API currently pays, and Raoul could also persuade these manufacturers to give similar savings to API. These savings would apply to API’s future investment in the same four parks.

Appendix IX (continued)
Willow Lakes Amusement Parks Inc. proposal
Prepared by Jacob Mason

The one concern I have is whether the market value for Aqua Bleu's net assets is reasonable. Below is the list of the park's assets along with their different values as at December 31, 2023. I also want to mention that currently about one-quarter of the land is not used for operations and has not been developed, so it is currently considered redundant. It is on this land that the new rides will be built. In addition, if we were to sell the capital assets, we would have selling costs equal to 6% of the gross proceeds.

Net assets for Aqua Bleu, as at December 31, 2023, are as follows:

	Net book value Dec 31, 2023	**Original cost Dec 31, 2023**	**Undepreciated capital cost Dec 31, 2023**	**CCA rate (declining balance)**	**Fair market value Dec 31, 2023**
Assets					
Inventory	$ 184,648				$ 192,000
Land	5,610,735	$ 5,610,735			7,840,000
Land improvements	1,685,090	3,159,543	$1,762,540	8%	1,760,000
Building	3,598,400	4,224,209	3,174,271	6%	3,741,300
Equipment	9,767,391	29,389,173	8,260,508	20%	12,985,400
Total assets	$20,846,264				
Liabilities					
Deferred revenue	1,731,394				
Net assets	$19,114,870				

Appendix X
Zucarelli's Pizza proposal
Prepared by Jacob Mason

Currently, the company has 10 concession stands that sell pizza in its parks. Below, I have summarized the revenues and costs related to these pizza concessions based on 2023 actual results.

	2023 ($)
Revenues from the 10 concessions selling pizza	6,338,820
Direct materials — cost of goods sold	2,273,232
Direct labour	918,036
Assistant manager (one per concession)	350,000
Marketing	621,000
Variable overhead	490,000
Amortization of cooking equipment	375,000
Amortization of the buildings	150,000
Fixed costs allocated for the buildings — electricity, phones, utilities	295,000
Allocated head office costs	45,000
	5,517,268
Operating profit	821,552

I am proposing that Zucarelli's would manage all the pizza concession stands in the park. In 2023, API sold 437,160 pizzas. I estimate that Zucarelli's will be able to see 20% more volume in pizzas, simply due to its reputation and name recognition across Canada. In addition, Larry Zucarelli stated that he would increase the price for pizzas by $1.00. The proposal is that Zucarelli's will pay API a 20% royalty on total revenues earned in the parks. Zucarelli's in return will supply and pay for all the staff, the ingredients, packaging, marketing, all variable overhead costs, and its special pizza ovens.

I estimate that API will require an existing employee who currently handles administrative functions for the concession stands to deal with any administrative work related to this agreement. The employee's salary of $40,000 annually, including benefits, is included in the allocated head office costs.

Zucarelli's will provide API with monthly reports showing gross revenue earned, and the royalty fee will be payable by the 15th of the following month.

Appendix XI
Updated payroll system
Prepared by Natalie Hopkins

The biggest change with the updated payroll system is that it now includes a scheduling feature that allows the company to schedule employees for the various shifts at specific rides/attractions or the concession or other jobs required at the park. Under the previous system, each supervisor prepared and managed their own schedule and approved the hours worked by each employee.

Under the new system, each park has its own scheduling manager who is solely responsible for maintaining this main work schedule for their park. The scheduling manager prepares the main work schedule on a weekly basis based on input from the various supervisors who directly supervise the employees in the park. Only the scheduling manager, with their unique username and password, has access to this main schedule in the new payroll application.

The scheduling starts at the supervisor level. Most supervisors have continued to use the old system for scheduling, which uses a project management desktop application on their own computer and which they have worked with for years. The supervisors find this old method easier to use to plan, quickly change, and follow throughout the day for their scheduling issues and changes. Each supervisor creates their own schedule for the week, and from this schedule they provide the scheduling manager with the inputs required to the main schedule. The supervisor has access to each employee's personal profile, which details the employee's regular hours and when the overtime becomes applicable.

Once the scheduling manager receives the input from their supervisor, the hours are input into the main schedule indicating if the hours are regular hours or overtime hours for each employee based on what the supervisor has provided. Although each employee profile indicates when overtime hours are applicable, neither the scheduling system nor the scheduling manager has access to the employee file; only the supervisor does.

Each supervisor and each employee has a unique username and password that gives them restricted access to the payroll system via a phone or computer application. The supervisors get access to this main schedule for all the employees that report to them, but they never match the main schedule against their own created schedule and just assume that the data has been correctly entered. Employees get access to their own personal schedule for the week. However, supervisors and employees cannot see if the hours scheduled have been coded as regular or overtime.

Appendix XI (continued)
Updated payroll system
Prepared by Natalie Hopkins

If a scheduling change is required, the supervisor completes a scheduling change notification request that goes directly to the scheduling manager, who inputs the changes into the schedule. Given that the supervisors rely solely on their individually created schedules on which they make changes all the time, they do not always get around to notifying the scheduling manager of scheduling changes. The schedule may require updates for changes that arise due an employee working additional hours, overtime hours, a different shift, or at a different venue within the park.

Throughout the day, supervisors and employees are continually receiving notifications and announcements from management about a variety of issues. Included in these notifications are notices of any scheduling changes that have been made. But as all internal communications, regardless of content, go into an internal mailbox, employees and supervisors do not always read these immediately (if at all) unless they are marked as "urgent." Only emergencies are allowed to be marked as "urgent."

At the end of the day, the final schedule of hours required for each employee for that day is updated to the payroll system and represents the number of hours that have been approved to be worked. This also includes any approved overtime hours required to be worked.

Each day, when the employee arrives on site, they enter in the time they arrived for work in a payroll phone app. At the end of the day, they enter in the time that they completed their shift and indicate that their shift is finished. As soon as the employee shift is marked as completed, the employee's direct supervisor receives notification, and the supervisor is required to approve the hours that have been worked for the shift. Once approved, the hours are posted in the payroll system as authorized hours worked.

The payroll system prepares a daily report comparing the final main scheduled hours for each employee and the hours actually worked. This daily report is available to both the supervisor and the scheduling manager but is never looked at, as they were not aware that this report is available nor were they told to review it.

The payroll is then calculated based on the regular and overtime hours that were in the final main schedule for the day. At the end of each two-week period, the hours as per the final main schedule are paid. Any indicated overtime hours are paid at 1.5 times the regular rate. Each supervisor signs off on these hours as final approval for payment after they have verified that the employee is one of theirs and did indeed work that pay period and the number of hours is reasonable. Once this approval is received, the pay is prepared.