



**Management's Discussion and Analysis of
Financial Condition and Results of Operation**

**For the Years Ended December 31, 2017 and 2016
As of March 22, 2018**

Canlan Ice Sports Corp. Management's Discussion and Analysis

The following management's discussion and analysis (MD&A) summarizes significant factors affecting the consolidated operating results and financial condition of Canlan Ice Sports Corp. ("Canlan", the "Company", "we" "our" or "us") for the years ended December 31, 2017 and 2016. This document should be read in conjunction with our audited consolidated financial statements for the years ended December 31, 2017 and 2016 and accompanying notes. The results reported herein have been prepared in accordance with International Financial Reporting Standards ('IFRS') and are presented in Canadian dollars.

In the following discussion, we define EBITDA as earnings before interest, taxes, depreciation and amortization. In addition, the term free cash flow is used, which we calculate as cash flow from operations less capital expenditures minus any proceeds from the disposition of capital assets. However, EBITDA and free cash flow are not terms that have specific meaning in accordance with IFRS, and may be calculated differently by other companies. The Company discloses EBITDA and free cash flow because these are useful indicators of operating performance and liquidity.

Additional information relating to our Company, including quarterly reports and our annual information form, is filed on SEDAR and can be viewed at www.sedar.com and our website www.icesports.com.

The date of this MD&A is March 22, 2018.

Forward Looking Statements

Certain statements in this MD&A may constitute "forward looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this MD&A, such statements may use such words as "may", "will", "expect", "believe", "plan" and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this MD&A. These forward looking statements involve a number of risks and uncertainties. Some of the factors that could cause actual results to differ materially from those expressed in or underlying such forward looking statements are the effects of, as well as changes in: international, national and local business and economic conditions; political or economic instability in the Company's markets; competition; legislation and governmental regulation; and accounting policies and practices. The foregoing list of factors is not exhaustive. Except as required by law, the Company disclaims any intention or obligation to update or revise any forward-looking statements.

Summary of 2017

- Revenue of \$85.4 million increased \$2.3 million or 2.8% compared to 2016;
- Operating margin for 2017 increased to 21.9% from 20.9% a year ago;
- EBITDA of \$12.8 million rose \$0.6 million or 5.1% compared to 2016;
- Cash flow from operations exceeded \$10.0 million for the first time; and
- Total utilities expenses were reduced by \$0.6 million or 6.8% compared to 2016 as investments in new capital equipment are starting to achieve expected returns.

Overview of the Company

Canlan Ice Sports Corp. is a leading operator of ice rink and multi-purpose recreational facilities. The Company's head office is located in its Burnaby, B.C. sports complex and it maintains a second corporate office at its Ice Sports York location in Toronto, Ontario. We currently have approximately 1,100 full time and part time employees working in our facilities.

As at the date of this MD&A the Company owns, leases or manages a network of 20 facilities in Canada and the United States containing playing surfaces as outlined below. The Company owns 12 of these facilities containing 1.4 million square feet of space situated on 157 acres of land. One facility is operated under a long-term land lease arrangement, two facilities under operating agreements with municipalities and a further three facilities under operating leases. We also manage two facilities on behalf of municipalities.

We operate primarily in the sports and recreation industry, with a focus on ice, turf and court sports. Our largest single revenue source within this segment is adult hockey, catering to both men and women operating under the Adult Safe Hockey League (ASHL) brand. Approximately 40% of our ice and field revenue is generated by the ASHL.

The Company's facility portfolio over the past five years, including all owned, leased and managed properties, is as follows:

	<i>Number of Facilities</i>	<i>Surfaces</i>
2017	20	77
2016	20	77
2015	21	83
2014	20	81
2013	18	68

A more detailed summary of the current locations of our facilities is as follows:

	Facilities	Ice Surfaces	Indoor Turf Fields	Courts ^a	Total Playing surfaces
Canada:					
British Columbia	5	14	1	-	15
Alberta	1	2	-	-	2
Saskatchewan	2	6	-	-	6
Manitoba	1	3	1	-	4
Ontario	7	22	2	11	35
Quebec	1	4	-	-	4
	17	51	4	11	66
USA:					
Illinois	2	3	1 ^b	4	8
Indiana	1	3	-	-	3
	3	6	1	4	11
	20	57	5	15	77

Note

a) Includes 3 indoor volleyball courts, 6 outdoor beach volleyball courts, 4 basketball courts and 2 sport courts

b) This is a FIFA regulation field

About Canlan

Canlan is a publicly traded Canadian Company with its shares listed on the Toronto Stock Exchange (TSX) using the trading symbol **ICE**. Canlan's shares were first listed for trading on March 1, 1990.

There are approximately 13.3 million shares outstanding and have traded in the \$3.83 to \$3.98 range since December 31, 2017. The Company has not issued any shares from treasury since November 2004.

The Company derives revenue from six primary sources:

- 1. Ice and field sales**
Revenue from ice and field rentals (together called "ice rentals" or "ice sales"), and internal programming.
- 2. Food and beverage**
Sales from our licensed restaurants and concession operations inside our facilities.
- 3. Sports stores**
Sales and rental of sports equipment and apparel, and skate sharpening services.
- 4. Management and consulting**
Fees from managing facilities owned by third parties and consulting engagements completed by our Partnership Solutions Division.
- 5. Sponsorship**
Revenue from sponsorship and advertising sales.
- 6. Space rental**
Rental of space inside our facilities.

Vision, Core Business and Strategy

Canlan will strive to be:

“A high performance industry leader, passionately committed to providing exceptional customer experiences, every time.”

The Company’s goal is to leverage its position in the North American recreation industry by continuing to focus on both organic growth and expansion through acquisition and long term lease. While our largest single market segment is adult recreational hockey leagues, we are focused on increasing utilization in other important segments including skating and hockey schools, soccer programs, court sports such as volleyball and ball hockey, specialty sports leagues and camps, and hockey tournaments. By providing quality products and services in clean, safe facilities, we still have capacity to grow our existing revenue base by providing value added services to our customers. At the same time, we actively seek opportunities to expand our business through acquisition, partnership solutions with third parties, or leasing facilities. Expansion objectives are to achieve a high return on investment and penetrate strategic markets.

We have developed six critical success factors supported by specific project initiatives that help the organization reach our goals:

- 1) **Sales and Marketing** - Cutting edge marketing that maximizes brand awareness, revenue and customer loyalty.
- 2) **Customer Experience** – Exceptional service delivered by well-trained and motivated staff, which results in consistently great experiences.
- 3) **New Ventures & Innovation** - Proactively seek out new opportunities that drive revenue and income growth.
- 4) **Operational Excellence** – Highly efficient and effective facility operations using industry-leading technology, streamlined process and consistent best practices.
- 5) **People & Leadership** – Strong leadership and highly dedicated people accountable for delivering outstanding customer experiences and business results.
- 6) **Culture** – High energy action-oriented culture that has a strong foundation in team-work, pride, respect and accountability.

Management continues to focus on carrying out these initiatives that are connected with these critical success factors. Over the past five years, several new ventures have been established and operational improvements have been achieved through strategic capital investments.

The Marketplace and Our Competition

Canlan's current marketplace is recreation, and we understand that we compete for market share with other sports and activities, some of which have lower participation costs. Our largest customer segment is adult hockey players. This segment of our business represents 40% of our total ice and field revenue from rentals and programming, or \$27.1 million. It also represents 32% of total revenue.

Canlan's largest competition is from municipalities and private league operators. Local governments cater primarily to their constituents who are usually made up of minor hockey and other amateur user groups. There are many private league operators in Canada that purchase ice time from local rinks and run adult leagues, and in some markets, there have been private operators that have constructed new ice rink facilities and operate competing leagues that capture market share. However, Canlan has various competitive advantages, one of which is that we control the ice inventory in our facilities, enabling us to schedule ice times efficiently and provide quality ice times where deemed most appropriate. In addition, our adult hockey leagues offer a level of fair competition and service that helps retain customers. Finally, our facilities are generally full-service sports & entertainment centers where we incorporate retail and food & beverage services into the customers' experience.

Competitive Strengths

The Company believes that it has the following competitive strengths:

- **Our Team.** Canlan currently has 1,100 full and part time dedicated employees in Canada and the USA. Through training and internal communications, we have established Canlan as the place to work in our segment and we attract skilled people in the industry. Our employees have industry-specific knowledge and are focused on providing quality customer service and a safe environment. In addition, Canlan's executive team is comprised of eight individuals who plan and monitor operations in all departments, sets policies, and continually assesses future growth strategies. These individuals have extensive expertise in facility operations, sales, marketing, customer service, finance and human resources.
- **Adult Safe Hockey League (ASHL).** The Company operates one of the largest adult recreational hockey leagues in North America. The ASHL offers superior services and fair competition in a fun environment. It operates year-round and has approximately 65,000 players registered for the winter and summer seasons in various divisions based on skill and age.
- **Diversified Recreation.** In addition to ice surfaces, the Company also operates turf fields and sport courts on which many other sports can be played such as, but not limited to, soccer, volleyball, basketball, and ball hockey. This enables the Company to diversify its product offerings and expand its market reach to various demographic groups.
- **Geographic Coverage.** Canlan currently owns and operates facilities in six provinces in Canada and two U.S. states giving us broad geographic coverage. Our geographic diversity and wide customer base help to mitigate the effects of economic cycles.
- **Buying Power.** As a result of being geographically diversified, and having significant product volumes in a number of categories, we are able to negotiate national supply agreements for preferred pricing.

Selected Financial Information

The following selected consolidated financial information as at December 31, 2017, 2016, and 2015 and each of the quarters and years then ended has been derived from our 2017 and 2016 annual and interim consolidated financial statements. This data should be read together with those financial statements.

	<i>(unaudited)</i>		<i>(audited)</i>		
	Quarter ended December 31		Year ended		
<i>in thousands, except earnings per share</i>	2017	2016	2017	2016	2015
Statement of Operations Data:					
Total revenue	\$ 24,278	\$ 23,845	\$ 85,411	\$ 83,079	\$ 79,449
Direct expenses ⁽¹⁾	(16,702)	(17,212)	(66,701)	(65,717)	(63,769)
General & administration expenses	(2,074)	(1,336)	(5,919)	(5,194)	(4,304)
EBITDA	5,502	5,297	12,791	12,168	11,376
Other expenses:					
Depreciation	(1,706)	(1,800)	(6,951)	(7,017)	(6,954)
Finance costs	(511)	(534)	(2,117)	(4,888)	(2,888)
Foreign exchange gain (loss)	3	8	(24)	474	(1,053)
Impairment loss	-	-	-	-	(4,070)
Gain on financial assets held for trading	85	1,056	1,027	259	-
Gain (loss) on sale of assets	-	-	7	21	(16)
Tax recovery (expense)	(939)	(1,790)	(1,176)	277	3
Net earnings (loss)	\$ 2,434	\$ 2,237	\$ 3,557	\$ 1,294	\$ (3,602)
Other comprehensive income (loss)	37	281	(857)	(390)	3,612
Total comprehensive income	\$ 2,471	\$ 2,518	\$ 2,700	\$ 904	\$ 10
Basic and fully diluted earnings (loss) per share	\$ 0.18	\$ 0.17	\$ 0.27	\$ 0.10	\$ (0.27)
Balance Sheet Data:					
Cash and cash equivalents			\$ 18,629	\$ 16,335	\$ 10,065
Current assets (excluding cash)			6,028	4,651	4,358
Capital assets			99,146	102,500	104,205
Other assets			1,917	2,073	1,976
Total assets			\$ 125,720	\$ 125,559	\$ 120,604
Current liabilities, excluding debt			\$ 23,314	\$ 22,090	\$ 20,457
Mortgage debt			53,679	55,593	53,152
Equipment leases			2,341	3,413	2,610
Deferred tax liabilities			1,188	898	657
Total liabilities			80,522	81,994	76,876
Shareholders's equity			45,198	43,565	43,728
			\$ 125,720	\$ 125,559	\$ 120,604
Dividends declared and paid			\$ 1,067	\$ 1,067	\$ 1,067

(1) Direct expenses include all operating costs related to the operation of our facilities.

Review of Fiscal 2017 Operations

Revenue

Total revenue of \$85.4 million increased by \$2.3 million or 2.8% compared to 2016.

Approximately 79% or \$67.7 million (2016 - \$65.5 million) of the Company's total revenue is generated from ice and field activities. In-house programming accounts for approximately 72% of this revenue source and gives us a distinct advantage over third-party rentals because it enables us to manage ice and field inventory based on demand, which results in increased margins. Canlan's largest internal program is the Adult Safe Hockey League.

The Adult Safe Hockey League

The ASHL operates in two seasons: 1) the fall/winter season from September to April and; 2) the spring/summer season from May to August.

In 2017, the ASHL generated revenue of \$27.1 million compared to \$26.4 million in 2016, which represents an increase of \$0.7 million or 2.8%. The increase was mainly due to pricing, modest volume growth in certain regions, and the spring and summer league that our Great Plains Recreation Facility added since operation commenced in September 2016.

The ASHL experiences competition from other league and rink operators, but management continues to focus on enhancing the experience of players, whether it be the team administration process, game play, playoff formats, or post-game social networking. This is critical to maintaining our position as leaders in the adult recreation hockey market.

The Youth Hockey League and 3 on 3

In addition to the ASHL, Canlan also operates a variety of youth leagues in the spring and summer seasons. These leagues are designed for minor hockey players who wish to continue playing after the regular fall/winter season ends. We offer both the traditional "5 on 5" formats through the Youth Hockey League, as well as a "3 on 3" league for those players looking for more speed in the game.

In the U.S. locations, our facilities are associated with minor hockey organizations in their local communities and revenues are earned from a combination of ice rentals to minor hockey associations, and registration fees for youth hockey teams and programs that we operate internally.

Youth hockey league revenue of \$3.9 million decreased by \$0.2 million or 5.6% compared to 2016 mainly due to increased competition and market changes in certain regions.

Canlan Camps, Hockey and Skating Academies

Canlan offers a variety of developmental programs through our branded Canlan Camps and Hockey and Skating Academies. Canlan Camps operate primarily in the summer months directed at the youth market, with a focus on hockey skills development and fun activity in various other sports.

Hockey and Skating Academies for adult and youth operate throughout the year and weekly classes are held to teach everything from learn-to-skate and figure skating, to power skating and team tactics. The growth opportunities of these programs are concentrated in the summer season when ice inventory is available and the youth population is generally not in school.

In 2017, these programs generated \$7.7 million in gross revenue; an increase of \$0.2 million or 2.4% from 2016 mainly due to pricing.

Tournaments

Tournament revenue of \$3.1 million remained consistent with prior year. Canlan runs a high-volume in-house tournament business that reduces our reliance on third party tournament operators during the summer and shoulder seasons. While the majority of our tournaments are held in Canlan facilities, which increase our ice utilization, we also hold a number of destination tournaments in third party arenas to add variation to our product offerings.

Contract Ice, Field and Court Rentals

After providing the necessary allocation of ice, field and court times to operate our in-house programs, we rent ice, fields and courts to third parties. Ice, field and court time are used by private groups, minor hockey associations, third party tournaments and camp operators as well as some adult leagues. Overall, third party contracts accounted for \$19.2 million in 2017; an increase of \$1.1 million or 5.9% from \$18.1 million in 2016 mainly due to increased volume and pricing. Great Plains Recreation Facility, during its first full year of operations, also contributed to our third-party contract revenue growth as it works closely with the local minor hockey organizations to provide ice time for their teams.

Soccer

Canlan operates five indoor soccer fields: one in Burnaby, B.C., one in Winnipeg, Manitoba, two in Sportsplex Mississauga, Ontario, and one FIFA-sized field in Lake Barrington, Illinois. Total soccer revenue of \$2.7 million in 2017 increased by \$0.1 million or 2.6% from 2016 mainly due to price increase and higher registrations in adult and youth indoor soccer leagues.

Similar to the ASHL on ice, a significant portion of prime-time utilization of these synthetic turf fields is comprised of indoor soccer leagues, branded the "AISL". In addition, we have secured field rental contracts with large youth and adult soccer associations that utilize prime and off-prime field times.

Revenue generated from activity on our ice rinks and soccer fields are broken down as follows:

<i>in thousands</i>	2017		2016	
	Revenue	% of total	Revenue	% of total
Adult hockey leagues	\$ 27,103	40	\$ 26,370	40
3rd party contract users	19,153	28	18,079	28
Camps, hockey & skating schools	7,737	11	7,558	12
Youth hockey leagues	3,854	6	4,083	6
Public programs & spot rentals	3,333	5	3,139	5
Tournaments	3,091	5	3,053	4
Soccer field rentals and leagues	2,713	4	2,644	4
Other	674	1	595	1
	\$ 67,658	100	\$ 65,521	100

Food & Beverage (F&B)

Revenue from our 17 restaurant and concession operations was \$12.3 million in 2017, increased by \$0.2 million or 2.0% from 2016.

We operate all our restaurants in-house to ensure our customers receive quality products and service. The product mix between food sales and liquor sales, which was 55% and 45% respectively, remained relatively consistent with 2016. The main drivers for F&B revenue are adult league players and tournament traffic that play in our venues. Accordingly, regions that experienced increases in league and tournament traffic had F&B revenue growth that was offset by the regions that experienced declines.

Management is focusing on menu offerings, pricing, and loyalty and promotional programs to improve the customer experience in our restaurants.

Food and beverage sales accounted for 14% of total revenue which is consistent with 2016.

Sports Stores

During the year, Canlan operated eight sports stores that sell equipment, apparel, and skate sharpening services in our buildings. The Company rents to third party store operators under long term leases in another five facilities. Our sports stores generated \$2.0 million in gross sales in 2017, compared to \$1.9 million in 2016. Sports store revenue represents 2% of total revenue. Skate sharpening revenue was \$0.5 million, unchanged from 2016. As with F&B, retail sales is largely dependent on ice utilization traffic.

Management Contracts

Management services revenue is comprised of fees for managing recreation facilities on behalf of owners and one-time consulting engagements. Management fee revenue of \$0.3 million decreased by \$0.2 million compared to 2016 mainly due to two management contracts ended at the close of 2016. The Company is currently involved in two management contracts in British Columbia.

On July 7, 2016, Canlan entered into an operating agreement with a municipality to operate a two-pad ice rink facility in Calgary, Alberta for a term of 25 years. Ownership of the facility will not transfer to Canlan; however, an income sharing arrangement with the municipality forms part of the agreement. Certain furniture, fixtures and equipment will be purchased by the Company such as ice resurfacers, kitchen equipment, computers, and furniture. The operation of this facility since commencement in September 2016 has met management's expectation.

Sponsorship and Space Rental

In many facilities, we rent space to complimentary types of businesses and we also sell advertising space to third party sponsors as ancillary sources of revenue. Sponsorship and space rental revenue of \$2.6 million rose by \$0.2 million or 7.4%. The increase was contributed by increased rental rates and the first full year rental in an additional rental space developed in one of our facilities in prior year.

Other Revenue

Other revenue of \$0.6 million in 2017 remained steady with 2016. Other revenue includes commissions received on vending machines plus fees Canlan earns from the registration and operation of affiliate adult recreation hockey leagues across Canada. These affiliate leagues are not part of the ASHL but are members of Canlan's Adult Safe Hockey Network.

Revenue by business segment and geographic region are as follows:

<i>in thousands</i>	2017		2016	
	Sales	% of total	Sales	% of total
Ice and Field Sales	\$ 67,658	79	\$ 65,521	79
Food and Beverage	12,317	14	12,080	15
Sports Store	1,965	2	1,940	2
Sponsorship	1,258	2	1,242	1
Space Rental	1,311	2	1,150	1
Management & Consulting Fees	262	-	466	1
Other	640	1	680	1
	\$ 85,411	100	\$ 83,079	100

<i>in thousands</i>	2017		2016	
	Sales	% of total	Sales	% of total
Canada:				
British Columbia	\$ 18,112	21	\$ 18,022	22
Alberta	1,662	2	572	1
Saskatchewan	7,038	8	7,148	9
Manitoba	4,509	5	4,445	5
Ontario	39,463	47	37,907	45
Quebec	4,477	5	4,690	6
	75,261	88	72,784	88
USA	10,150	12	10,295	12
	\$ 85,411	100	\$ 83,079	100

Revenue by Quarter

The Company recorded the following revenue by quarter in 2017. The revenue stream is somewhat seasonal with 58% of the Company's revenue being generated in the fall and winter months (first and fourth quarters) and 42% in the spring and summer seasons (second and third quarters).

<i>in thousands</i>	2017		2016	
	Revenue	% of total	Revenue	% of total
Q1	\$ 25,147	30	\$ 24,231	29
Q2	18,616	22	18,182	22
Q3	17,370	20	16,821	20
Q4	24,278	28	23,845	29
	\$ 85,411	100	\$ 83,079	100

Direct Operating Costs

Total facility operating costs of \$66.7 million in 2017 increased by \$1.0 million or 1.5% compared to 2016, mainly due to an increase in labour costs and property tax expense, partially offset by reduced utility expenses.

Labour costs increased by \$1.3 million or 4.0% mainly due to annual wage increments in the normal course of business and a full year of salaries and wages at the Great Plains Recreation Facility that was opened in September 2016. Labour is our largest expense and represents 49% of our direct operating costs which was consistent with 2016. We continuously monitor labour rates to stay competitive in all markets. Four of our facilities are subject to collective agreements with three different unions.

Property tax increased by \$0.4 million or 12.6% mainly due to the addition of the Great Plains Recreation Facility.

Utility expense decreased by \$0.6 million or 6.8% from 2016. Despite the addition of a full year of energy costs from the Great Plains Recreation Facility, we managed to reduce electricity consumption in 2017 due to a variety of energy savings initiatives and equipment replacement projects completed in the last few years.

Facility operating costs are less seasonal than revenue, as our business does have a fixed cost component to it.

<i>in thousands</i>	2017		2016	
	Costs	% of total	Costs	% of total
Q1	\$ 17,132	26	\$ 16,331	25
Q2	16,869	25	16,233	25
Q3	15,998	24	15,941	24
Q4	16,702	25	17,212	26
	\$ 66,701	100	\$ 65,717	100

Operating Margin before General and Administration expenses

Operating margin is calculated as revenue less operating expenses expressed as a percentage of revenue. Operating margin for 2017 increased to 21.9% from 20.9% a year ago.

U.S. Facility Operations

In the United States, the Company owns and operates ice rink facilities in Fort Wayne, Indiana, and Romeoville, Illinois. A non-ice multi-sport complex is also owned and operated in Lake Barrington, Illinois.

Overall, U.S. operations have stabilized over the past two years and the focus now is on steadily growing the revenue base through strong program execution and good cost management through energy savings initiatives and labour efficiencies.

General and Administration Expenses

Corporate G&A expenses of \$5.9 million increased by \$0.7 million or 14.0% compared to 2016 mainly due to increased labour and consulting costs. Corporate labour costs rose mainly due to higher performance-based compensation compared to 2016. Increased consulting fees were incurred related to specific strategic projects that were completed during the year. G&A expense represented 6.9% of total revenue in 2017 compared to 6.3% of total revenue in 2016.

G&A expenses throughout the year are as follows:

<i>in thousands</i>	2017		2016	
	Expense	% of total	Expense	% of total
Q1	\$ 1,402	24	\$ 1,256	24
Q2	1,299	22	1,493	29
Q3	1,144	19	1,109	21
Q4	2,074	35	1,336	26
	\$ 5,919	100	\$ 5,194	100

EBITDA¹

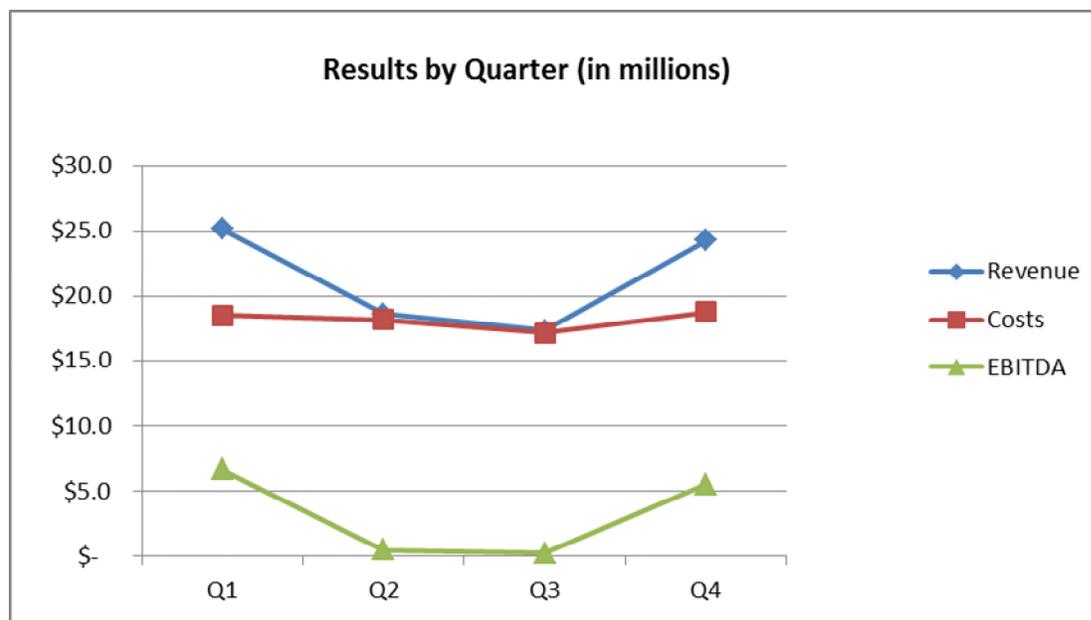
After accounting for ice rink operating costs of \$66.7 million (2016 - \$65.7 million) and G&A expenses of \$5.9 million (2016 - \$5.2 million), EBITDA was \$12.8 million; an increase of \$0.6 million or 5.1% compared to 2016.

The Company's EBITDA by quarter was as follows:

<i>in thousands</i>	2017		2016	
	EBITDA	% of total	EBITDA	% of total
Q1	\$ 6,613	52	\$ 6,644	55
Q2	448	3	456	4
Q3	228	2	(229)	(2)
Q4	5,502	43	5,297	43
	\$ 12,791	100	\$ 12,168	100

The seasonality of the Company's EBITDA is a direct result of seasonal revenue stream combined with a cost structure that is relatively fixed.

This trend is illustrated as follows:



¹ Non-IFRS measure – see explanation on page 1. See reconciliation to net income on page 19, and to cash flow on page 26.

Gross Margin

Gross margin is calculated as revenue less operating and G&A expenses, expressed as a percentage of revenue. Gross margin for 2017 was 15.0% compared to 14.6% in 2016.

Non-operating Expenses

Depreciation

Depreciation expense of \$7.0 million remained consistent with 2016.

The Company's depreciation policy was unchanged during the year. The policy calls for straight-line depreciation of facility assets over periods ranging from five to forty years.

Finance Income and Costs

Finance income and costs mainly consist of interest income earned on cash on hand, interest expense on mortgage debt and finance leases, amortization of deferred financing costs, and unrealized mark-to-market gains on an interest rate swap contract (see **Financial Instruments** below for further details).

Net finance costs were \$1.1 million compared to \$4.6 million a year ago. In 2016, a debt-retirement fee of \$2.3 million was included in the finance costs but not required in 2017. See **Review of Liabilities and Shareholders' Equity – Mortgages** below for further details. The unrealized mark-to-market gain on an interest rate swap contract was \$1.0 million compared to \$0.3 million in 2016.

A breakdown of our net finance cost is as follows:

<i>in thousands</i>		2017		2016
Mortgage interest	\$	1,933	\$	2,240
Debt retirement fee		-		2,318
Interest income		(124)		(66)
Equipment lease interest		138		131
Gain on financial assets held for trading		(1,027)		(259)
Amortization of deferred financing costs and other		170		265
	\$	1,090	\$	4,629

At year end, the Company had interest bearing, mortgage secured debt totaling \$53.7 million (2016 – \$55.6 million).

The Company has fixed the interest rate on 66% of its mortgage debt, or \$35.5 million at a weighted average rate of 3.52%. Debt with variable interest rates consists of \$11.4 million at the Prime rate plus 0.50%, and \$7.1 million at LIBOR plus 2.50%.

Costs related to debt financing are amortized using the effective interest rate method in accordance with IFRS and classified as interest expense. In 2017, total financing fees expensed was \$81,000 compared to \$176,000 in 2016.

Net Earnings Before Income Taxes

Net earnings before income taxes was \$4.7 million in 2017 compared to \$1.0 million in 2016. A one-time \$2.3 million debt-retirement fee was incurred in 2016.

Taxes

In 2017, a net tax expense of \$1.2 million that comprised of \$0.8 million of current tax expense and \$0.4 million of deferred tax expense was recorded.

Each year, management reviews assumptions regarding deferred income tax assets and liabilities to ensure that the reported balances appropriately reflect tax benefits available to offset future income taxes and future reversal of those benefits. The deferred tax assets and liabilities mainly resulted from the timing difference between tax and accounting depreciation, and the timing difference of deferred revenue.

Prior to 2016, U.S. operations incurred losses that created non-capital loss carry-forwards of approximately \$9.0 million that are available to offset future taxable income in the United States. The Company is permitted to recognize deferred tax assets to the extent of the amount of taxable income that will be probable in future years. In 2017, the Company recognized \$0.1 million of deferred tax benefits based on the Company's estimation of 2017 taxable income and probable taxable income in future years. The remaining losses carried forward have not been recognized as deferred tax assets at December 31, 2017.

Net Earnings

Net earnings after tax for the year ended December 31, 2017 was \$3.6 million or \$0.27 per share, compared to \$1.3 million in 2016 or \$0.10 per share.

Foreign Currency Translation and Other Comprehensive Income

Other comprehensive income comprises foreign currency translation adjustments related to the Company's U.S. subsidiaries. Other comprehensive loss in 2017 was \$0.9 million (2016 – \$0.4 million).

Transactions in U.S. dollars that are not part of the Company's U.S. subsidiaries, are recognized at the rates of exchange prevailing at the date of the transaction. In addition, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the period end date. As a result foreign currency differences arising on the retranslation are recognized in net earnings.

Summary of Operations
For the years ended December 31
in thousands

	2017	2016	2015
Revenue	\$ 85,411	\$ 83,079	\$ 79,449
Expenses	66,701	65,717	63,769
Earnings from operations	18,710	17,362	15,680
General & administration	5,919	5,194	4,304
EBITDA	12,791	12,168	11,376
Other expenses (income)			
Depreciation	6,951	7,017	6,954
Loss (gain) on sale of assets	(7)	(21)	16
Impairment loss	-	-	4,070
Foreign exchange (gain) loss	24	(474)	1,053
	6,968	6,522	12,093
Finance costs (income)			
Finance costs	2,241	2,636	2,950
Debt retirement fee	-	2,318	-
Finance income	(124)	(66)	(62)
Gain on financial assests held for trading	(1,027)	(259)	-
	1,090	4,629	2,888
Net earnings (loss) before taxes	4,733	1,017	(3,605)
Income tax expense (recovery)			
Current	779	(347)	600
Deferred	397	70	(603)
	1,176	(277)	(3)
Net earnings (loss)	\$ 3,557	\$ 1,294	\$ (3,602)
Other comprehensive income (loss):			
<i>Items that may be reclassified subsequently to net earnings:</i>			
Foreign currency translation differences	(857)	(390)	3,612
Total comprehensive income	\$ 2,700	\$ 904	\$ 10
Operating margin before general & administration	21.9%	20.9%	19.7%
Administration as a percentage of revenue	6.9%	6.3%	5.4%
EBITDA as a percentage of revenue	15.0%	14.6%	14.3%

Summary of Quarterly Results

The following tables present our unaudited consolidated quarterly results of operations for each of the last eight fiscal quarters. This data has been derived from our unaudited quarterly consolidated financial statements which are prepared on the same basis as our annual audited financial statements.

<i>in thousands</i>	2017				Total
	Q1	Q2	Q3	Q4	
Gross revenue	\$ 25,147	\$ 18,616	\$ 17,370	\$ 24,278	\$ 85,411
Operating costs	(17,132)	(16,869)	(15,998)	(16,702)	(66,701)
	8,015	1,747	1,372	7,576	18,710
General & administration	(1,402)	(1,299)	(1,144)	(2,074)	(5,919)
EBITDA	6,613	448	228	5,502	12,791
Depreciation	(1,781)	(1,765)	(1,699)	(1,706)	(6,951)
Finance costs	(537)	(525)	(544)	(511)	(2,117)
Foreign exchange gain (loss)	1	(11)	(17)	3	(24)
Gain (loss) on financial assets held for trading	(14)	414	542	85	1,027
Gain on sale of assets	-	6	1	-	7
Net earnings (loss) before taxes	4,282	(1,433)	(1,489)	3,373	4,733
Income taxes	(1,004)	443	324	(939)	(1,176)
Net earnings (loss)	\$ 3,278	\$ (990)	\$ (1,165)	\$ 2,434	\$ 3,557
Earnings (loss) per share	\$ 0.25	\$ (0.07)	\$ (0.09)	\$ 0.18	\$ 0.27

<i>in thousands</i>	2016				Total
	Q1	Q2	Q3	Q4	
Gross revenue	\$ 24,231	\$ 18,182	\$ 16,821	\$ 23,845	\$ 83,079
Operating costs	(16,331)	(16,233)	(15,941)	(17,212)	(65,717)
	7,900	1,949	880	6,633	17,362
General & administration	(1,256)	(1,493)	(1,109)	(1,336)	(5,194)
EBITDA	6,644	456	(229)	5,297	12,168
Depreciation	(1,736)	(1,729)	(1,752)	(1,800)	(7,017)
Finance costs	(735)	(3,093)	(526)	(534)	(4,888)
Foreign exchange gain	458	5	3	8	474
Gain (loss) on financial assets held for trading	-	(863)	66	1,056	259
Gain on sale of assets	5	-	16	-	21
Net earnings (loss) before taxes	4,636	(5,224)	(2,422)	4,027	1,017
Income taxes	(667)	1,427	1,307	(1,790)	277
Net earnings (loss)	\$ 3,969	\$ (3,797)	\$ (1,115)	\$ 2,237	\$ 1,294
Earnings (loss) per share	\$ 0.30	\$ (0.28)	\$ (0.08)	\$ 0.17	\$ 0.10

Review of Fourth Quarter 2017

In Q4, revenue of \$24.3 million, increased by \$0.4 million or 1.8% compared to prior year. The main drivers of the increase were higher contract revenue, growth in youth and adult soccer leagues revenue, and incremental food & beverage revenue.

Operating cost of \$16.7 million, decreased by \$0.5 million or 3.0% compared to Q4 2016 mainly due to lower utility and maintenance expenses. In addition, start-up costs were incurred in Q4 2016 to open the Great Plains Recreation Facility that were not required in 2017. These decreases were partially offset by higher performance-based compensation expenses in Q4 2017.

Operating earnings before G&A expenses was \$7.6 million compared to \$6.6 million in 2016.

After recording G&A expenses of \$2.1 million, EBITDA was \$5.5 million compared to \$5.3 million in 2016. G&A increased by \$0.7 million or 55.2% principally due to increased consulting fees related to specific strategic projects and higher performance-based compensation accrued in 2017.

After recording finance costs, depreciation, a gain on foreign exchange, and mark-to-market gains on financial instruments (interest rate swap contract) totaling \$2.1 million, net earnings before taxes was \$3.4 million compared to \$4.0 million in the fourth quarter of 2016. Fluctuations in mark-to-market gains are largely dependent on market interest rate movements.

After income tax, net earnings was \$2.4 million or \$0.18 per share, compared to \$2.2 million or \$0.17 per share in 2016. A summary of Q4 results is as follows:

<i>in thousands</i>	2017		2016	
Gross revenue	\$	24,278	\$	23,845
Operating costs		(16,702)		(17,212)
		7,576		6,633
General & administration		(2,074)		(1,336)
EBITDA		5,502		5,297
Depreciation		(1,706)		(1,800)
Finance costs		(511)		(534)
Gain on financial assets held for trading		85		1,056
Other		3		8
Net earnings before taxes and other		3,373		4,027
Income taxes		(939)		(1,790)
Net earnings	\$	2,434	\$	2,237
Other comprehensive income		37		281
Total comprehensive income	\$	2,471	\$	2,518
Earnings per share	\$	0.18	\$	0.17

Review of Assets

The table below summarizes the Company's asset base:

<i>in thousands</i>	2017	2016
Properties	\$ 98,596	\$ 101,934
Cash	18,629	16,335
Accounts receivable	3,051	2,437
Inventory	1,094	1,138
Prepaid expenses and other assets	853	1,122
Investment properties	550	566
Financial asset held for trading	1,286	259
Deferred income taxes	1,661	1,768
	<u>\$ 125,720</u>	<u>\$ 125,559</u>

During the year ended December 31, 2017, the Company invested \$4.9 million (2016 - \$5.9 million) on capital expenditures related to building improvements and renewal of plant equipment at various facilities. Approximately \$1.8 million of the 2017 capital expenditures was funded with a demand revolving capital expenditure loan, while \$1.8 million of the 2016 capital expenditures was funded with lease financing. Expenditures undertaken during the period include new refrigeration equipment, plant automation/optimization software, ice resurfacing equipment, and installation of energy efficient lighting at various facilities.

At December 31, 2017, the total property, plant and equipment balance was \$98.6 million compared to \$101.9 million in 2016. The decrease resulted from depreciation and foreign currency translation differences that reflected a lower U.S. dollar compared to December 2016.

Investment properties remained consistent with prior year.

Cash on hand of \$18.6 million at the end of 2017 was higher than 2016 as cash generated from operations increased from 2016 and annual debt service was lower.

Cash and cash equivalents include \$0.4 million (2016 – \$0.4 million) of restricted cash representing funds held in trust in accordance with the terms of the Great Plains Recreation Facility operating agreement. These funds are maintained as operating and capital expenditure reserves and the balance will change as reserve requirements are adjusted.

Prepaid expenses consist of amounts paid in advance that will be expensed in the subsequent 12 months, such as insurance and property taxes.

Review of Liabilities and Shareholders' Equity

The table below summarizes the Company's capital structure:

<i>in thousands</i>	2017	2016
Debt	\$ 53,679	\$ 55,593
Accounts payable	10,105	9,455
Deferred revenue and customer deposits	13,209	12,635
Finance leases	2,341	3,413
Deferred income taxes	1,188	898
	80,522	81,994
Shareholders' equity	45,198	43,565
	\$ 125,720	\$ 125,559

Interest bearing liabilities, which include debt and finance leases, totaled \$56.0 million as at December 31, 2017, compared to \$59.0 million as at December 31, 2016. The net decrease of \$3.0 million resulted from normal repayments of debt and finance leases, partially offset by additional capital expenditure loan borrowed (see **Review of Liabilities and Shareholders' Equity – Mortgages** below).

Deferred revenue and customer deposits represent customer registration and rental fees received in advance of when ice and field times are actually used.

At December 31, 2017, the working capital deficit was \$4.9 million compared to \$5.9 million at December 31, 2016. This improvement was principally due to an increase of the Company's cash position at the end of the year (see **Review of Assets** above).

Mortgages

During Q2 2016, the Company borrowed \$48.5 million of debt on ice rink properties. The Company used these funds to extinguish \$42.9 million of existing debt. The resulting new debt package reduced borrowing rates which improved annual cash flow.

As at December 31, 2017, debt consists of six credit facilities, five of which have been drawn, as follows:

- 1) \$38.5 million loan amortized over 15 years, maturing on May 25, 2023, interest at Prime rate plus 0.50% per annum payable monthly. The Company entered into an interest rate swap contract to fix the interest rate at 3.52% per annum payable monthly. At December 31, 2017, the balance outstanding was \$35.5 million;
- 2) \$10.0 million loan amortized over 15 years, maturing on May 25, 2023, interest at Prime rate plus 0.50% per annum payable monthly. At December 31, 2017, the balance outstanding was \$9.2 million;
- 3) \$5.4 million (US\$5.0 million) loan amortized over 15 years, maturing on August 1, 2019, interest at LIBOR plus 2.5% per annum payable monthly. At December 31, 2017, the balance outstanding was \$4.8 million (US\$3.9 million). This loan is denominated in U.S. currency;

- 4) \$2.8 million (US\$2.2 million) loan amortized over 15 years, maturing on February 1, 2020, interest at LIBOR plus 2.5% per annum payable monthly. At December 31, 2017, the balance outstanding was \$2.2 million (US\$1.8 million). This loan is denominated in U.S. currency;
- 5) \$5.0 million demand revolving capital expenditure loan amortized over 15 years, interest at Prime rate plus 0.50% per annum. At December 31, 2017, the balance outstanding was \$2.2 million; and
- 6) \$0.7 million demand revolving operating loan, interest at Prime rate plus 0.50% per annum. No amounts have been drawn on this loan to date.

We are in full compliance with debt covenants as at December 31, 2017 and we expect to continue to be in compliance during the coming fiscal year.

Customer Deposits and Deferred Revenue

A large component of our current liabilities is comprised of deferred revenue related to league registrations and customer deposits received in advance which totaled \$13.2 million as at December 31, 2017 (2016 - \$12.6 million). We recognize revenue as ice or field time is used; many of the seasonal contracts and league registrations are paid in advance.

Finance Leases

Finance lease was used in 2016 to finance the acquisition of heavy equipment used in our facilities such as ice resurfacers and refrigeration equipment with a term of five years. In 2017, the Company drew on a capital expenditure demand loan to finance some of its heavy equipment (see **Review of Liabilities and Shareholders' Equity – Mortgages** above).

Liquidity and Capital Resources

Canlan's cash balance as at December 31, 2017 was \$18.6 million compared to \$16.3 million from December 31, 2016.

As discussed above, the Company was realizing the benefits of reduced finance costs and improved cash flow from the refinancing of a term loan in 2016.

During 2017, we also utilized \$1.1 million to reduce the principal on finance leases and \$1.1 million to pay dividends on common shares. On December 1, 2017, the Company continued its dividend policy and declared a quarterly dividend of \$0.02 per share on a record date on December 29, 2017 which was paid on January 16, 2018.

Investment activities in 2017 included \$4.8 million incurred on facility capital projects. Facility capital expenditures consisted of new refrigeration equipment, plant automation/optimization software, ice resurfacing equipment, and installation of energy efficient lighting at various facilities.

Summarized Statement of Cash Flows:

<i>in thousands</i>	2017		2016	
Cash inflows and (outflows) by activity				
Operating activities	\$	10,802	\$	8,889
Financing activities		(3,625)		1,422
Investing activities		(4,883)		(4,041)
		<u>2,294</u>		<u>6,270</u>
Cash position, beginning of year		16,335		10,065
Cash position, end of year	\$	18,629	\$	16,335
Key ratios				
Working capital	\$	(4,937)	\$	(5,886)
Debt to equity ratio		1.24:1		1.35:1

As illustrated in the table above, the reduction in our working capital deficiency and the decrease in the debt to equity ratio at the end of 2017 were related to the effect of the debt refinancing transaction that was completed in 2016. The debt to equity ratio is expected to continue meeting the lenders' covenant requirement in 2018.

Cash Flow

Our cash position fluctuates during the year as a result of the seasonality of our business. Historically the highest cash position is December and lowest occurs in August. We generally collect registration fees for the ASHL in the first three months of each season, and program fees are collected upon registration.

Cash flow from operating activities was \$10.9 million in 2017 compared to \$9.0 million in 2016. Included in 2016 operating activities was the payment of \$2.3 million in early debt retirement fees. After accounting for additional bank financing, debt repayments, capital expenditures, and dividends paid, cash increased by \$2.3 million in 2017.

The following table provides a reconciliation of EBITDA to the change in cash position for the last two years:

<i>in thousands</i>	2017		2016	
EBITDA	\$	12,791	\$	12,168
Changes in working capital items		1,010		1,667
Net finance costs		(2,035)		(5,087)
Income tax expense		(779)		347
Foreign exchange		(49)		(138)
Cash flow from operations		10,938		8,957
Less:				
Mortgage principal reduction		(3,228)		(45,484)
New debt		1,750		49,000
Capital expenditures		(4,890)		(4,062)
Equipment lease payments		(1,080)		(1,027)
Dividends paid		(1,067)		(1,067)
Net proceeds on sale of assets		7		21
Effect of changes in foreign currency rates		(136)		(68)
Change in cash position for the year	\$	2,294	\$	6,270

Contractual Obligations

The following table presents the aggregate amount of future cash outflows for contractual obligations in each of the next five years and thereafter. The operating leases listed below for land and buildings fit the definition of off-balance sheet financing arrangements.

<i>in thousands</i>	2018		2019		2020		2021		2022		Thereafter		Total	
Long-term debt:														
Mortgage principal and interest	\$	7,304	\$	9,073	\$	6,074	\$	4,148	\$	4,148	\$	31,316	\$	62,063
Equipment leases, including interest		994		795		526		267		10		-		2,592
		8,298		9,868		6,600		4,415		4,158		31,316		64,655
Land and building leases (off balance sheet financing)		1,183		1,183		880		852		852		7,269		12,219
	\$	9,481	\$	11,051	\$	7,480	\$	5,267	\$	5,010	\$	38,585	\$	76,874

Share Capital

No new shares have been issued from treasury since November 2004, and the Company does not have a stock option plan.

	2017	2016
Shares issued and outstanding	13,337,448	13,337,448
Weighted average number of shares outstanding	13,337,448	13,337,448

The Company established a stock appreciation rights (SARs) plan in 2005 and it was renewed in 2016. The SARs plan provides eligible employees and directors with the right to receive cash equal to the appreciation of the Company's common shares subsequent to the date of the grant upon the exercise of rights. The granted SAR's vest in equal installments over a three year period and expire three years from the grant date.

The Company has outstanding stock appreciation rights as follows:

Expiry date	Number of Rights at December 31, 2017		Exercise Price
	Outstanding	Excercisable	
March 23, 2018	11,667	-	\$3.30
November 29, 2019	509,751	134,737	\$3.34
April 15, 2020	35,000	-	\$3.85
June 15, 2020	70,000	-	\$3.74
November 28, 2020	35,000	-	\$3.96
	<u>661,418</u>	<u>134,737</u>	

During the year, 146,083 SARs were exercised at a weighted average exercise price of \$3.04.

The liability related to the SARs program is adjusted quarterly based on the fair value of the SARs as estimated using the Black-Scholes pricing model. As at December 31, 2017 the Company recorded a liability in the amount of \$0.1 million. For the year ended December 31, 2017, fair value measurement of the SARs liability resulted in a net compensation expense of \$0.2 million (2016 - \$0.2 million) that was recognized in the statement of earnings and comprehensive income.

Transactions with Related Parties

Canlan's controlling shareholder, Bartrac Investments Ltd., owns approximately 10.1 million shares of the Company, or 75% of the outstanding shares. Bartrac's ownership position in TSX: ICE has remained unchanged since November 2004.

The Company did not record any related party transactions with Bartrac in 2017 and 2016.

The Company paid \$0.2 million (2016 - \$0.2 million) in directors' fees during 2017.

Financial Instruments

The Company initially measures all its financial instruments at fair value. Subsequent measurement and treatment of any gain or loss is recorded as follows:

- Loans and receivables are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method,

less any impairment losses. Loans and receivables comprise of cash and cash equivalents and accounts receivable.

- Non-derivative financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. Non-derivative financial liabilities comprise of accounts payable and accrued liabilities, obligations under finance leases and debt.
- Held for trading financial assets and liabilities are measured at the fair value at the balance sheet date with any gain or loss recognized immediately in net earnings. In June 2016, the Company has entered into an interest rate swap agreement (seven year term) to fix the interest rate on a portion of its debt on ice rinks. The fair value of the instrument has been presented as financial asset held for trading on the statement of financial position. At December 31, 2017, the fair value was \$1.3 million. Changes in the fair value of the instrument are recognized in net earnings. For the year ended December 31, 2017, a gain of \$1.0 million was recognized as part of finance cost.
- Transaction costs that are directly attributable to the issuance of financial assets or liabilities are accounted for as part of the carrying cost at inception and are recognized over the term of assets or liabilities using the effective interest method.

The Company does not have held to maturity investments at December 31, 2017. The Company had no “other comprehensive income or loss” transactions related to financial instruments during the year ended December 31, 2017 and no opening or closing balances for accumulated other comprehensive income or loss related to financial instruments.

Disclosure Controls and Procedures

We have established and maintain disclosure controls and procedures designed to provide reasonable assurance that material information relating to the Company is made known to the appropriate level of management in a timely manner.

Based on current securities legislation in Canada, our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are required to certify that they have assessed the effectiveness of our disclosure controls and procedures as at December 31, 2017.

Our management has evaluated, under the supervision and with the participation of our CEO and CFO, the design and effectiveness of the Company’s disclosure controls and procedures as at the year ended December 31, 2017. Management has concluded that these disclosure controls and procedures, as defined in National Instrument 52-109 – Certification of Disclosure in Issuers Annual and Interim Filings (NI 52-109), are adequate and effective and that material information relating to the Company was made known to them and reported within the time periods specified under applicable securities legislation.

Our management, under the supervision of our CEO and CFO, has also designed and evaluated the effectiveness of the Company’s internal controls over financial reporting (ICFR) using the Internal Control – Integrated Framework as published by the Committee of Sponsoring Organization of the Treadway Commission (2013 Framework)

(COSO) Framework. Based on our evaluation, management has concluded that ICFR, as defined in NI 52-109 and using the COSO integrated framework are effective as of December 31, 2017.

Risk Factors

Canlan is engaged primarily in the operation of multi-pad recreation facilities throughout North America, and is exposed to a number of risks and uncertainties that can affect operating performance and profitability. Our past performance is no guarantee of our performance in future periods.

Some of the risks and uncertainties we are exposed to, together with a description of management's action to minimize our exposure, are summarized below.

Leverage and Ability to Service Indebtedness

The Company's level of debt and the limitations imposed on it by its debt agreements could have important consequences, including the following:

- the Company will have to use a significant portion of its cash flow from operations for debt service, rather than for operations.
- the Company may not be able to obtain additional debt financing for future working capital, capital expenditures or other corporate purposes.
- the Company could be more vulnerable to economic downturns and less able to take advantage of significant business opportunities or to react to changes in market or industry conditions.
- the Company's less leveraged competitors could have a competitive advantage.

The Company's ability to pay the principal and interest on debt obligations will depend on its future performance. To a significant extent, our performance will be subject to general economic, financial and competitive factors. We can provide no assurances that its business will generate cash flow from operations sufficient to pay the Company's indebtedness, fund other liquidity needs or permit the Company to refinance its indebtedness. The Company can provide no assurances that it can secure any further credit facilities or that the terms of any such credit facilities will be favourable.

If the Company has difficulty servicing its debt, the Company may be forced to adjust capital expenditures, seek additional financing, sell assets, restructure or refinance the Company's debt, adjust dividends, or seek equity capital. The Company might not be able to implement any of these strategies on satisfactory terms, if at all. The Company's inability to generate sufficient cash flow or refinance its indebtedness would have a material adverse effect on the Company's financial condition, results of operations and ability to satisfy the Company's obligations.

Mitigating factors and strategies:

- The Company manages its capital with the objectives of maintaining a financial position suitable for servicing debt in accordance with repayment schedules, complying with debt covenants, and supporting our growth strategies.

- The Company maintains good relationships with its lenders through regular communications and reporting.

Infrastructure Expenditures

The Company's recreation facilities consist of plant and equipment that have useful lives estimated by management. Assets may become obsolete and may require replacement before the end of their estimated useful lives, which will necessitate significant capital expenditure.

Mitigating factors and strategies:

- The Company has implemented formal standard operating procedures and operational support visits to help protect our assets.
- The Company has a stringent asset repair and maintenance program.
- The Company has a long-term capital project program that plans capital expenditures in accordance with priorities and estimated useful lives.

Incurrence of Debt and the Granting of Security Interests

From time to time, the Company may enter into transactions and these transactions may be financed partially or wholly with short or long term debt, which may increase the Company's debt levels above industry standards and may require the Company to grant security interests in favour of third parties. Neither the Company's articles nor notice of articles limit the amount of indebtedness that the Company may incur or its ability to grant security interests. Should the Company default on any of its obligations under any secured credit facility, this could result in seizure of the Company's assets. The level of the Company's indebtedness from time to time could impair our ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Mitigating factors and strategies:

- The Company manages its capital with the objectives of maintaining a financial position suitable for servicing debt in accordance with repayment schedules, complying with debt covenants, and supporting our growth strategies.

Insurance

The Company develops and organizes sports leagues to play at the facilities it owns and operates. Due to the nature of the sport, incidents can occur. We purchase liability and accident insurance, the cost of which is dependent upon the history of the number of injury claims and the quantum of such claims. There is always a risk that the cost of acquiring sufficient insurance to cover any such injury claims will become prohibitive or that such insurance will become unavailable. The Company has obtained insurance coverage that it believes would ordinarily be maintained by an operator of facilities similar to that of the Company. The Company's insurance is subject to various limits and exclusions. Damage or destruction to any of our facilities or lawsuits arising from use of such facilities could result in claims that are excluded by, or exceed the limits of, the Company's insurance coverage.

Mitigating factors and strategies:

- Company maintains its facilities to high standards and continually monitors league activities and enforces a strict set of rules.

- Company has developed risk management procedures and emergency preparedness guides at all of its locations.
- Management works closely with insurance providers.

U.S. Operations

The Company's expansion strategies include certain markets in the U.S. As such, the Company faces the risks of operating in new markets where the demographics, consumer preferences, and economic conditions can be very different from Canadian markets in which the Company primarily operates. Should market conditions of new U.S. locations vary significantly from what was anticipated, the Company's financial results could be adversely affected.

In addition, the Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Company, the Canadian dollar. The currency in which these transactions are denominated is the U.S. dollar. Should the financial results of the Company's U.S. subsidiaries significantly fall short of targets, the Company could be exposed to the risk of loss depending on the relative movement of this currency against the Canadian dollar. The Company does not currently enter into forward contracts to mitigate this risk. However, management currently expects that earnings from U.S. business activities are adequate to service operating costs, debt payments, and other cash needs of U.S. operations.

Mitigating factors and strategies:

- The Company performs due diligence to evaluate the structural condition of facilities, and conditions that support supply and demand in the marketplace.
- Management closely monitors the Canadian-U.S. foreign exchange rate and could utilize hedging instruments if cash required to fund U.S. operations and debt service exceeds cash flows generated from U.S. facilities. In addition, a reasonable amount of U.S. currency is maintained on hand to meet operating needs.

Seasonality of Operations

The Company's business cycle is highly seasonal with 58% of total revenues and virtually all of the operating profit being generated in the first and last quarters. This seasonality of operations impacts reported quarterly earnings. The operating results for any particular quarter is not necessarily a good indicator of operating results for the other fiscal quarters or the entire fiscal year. As a result of the seasonality, the highest cash flow period for the Company is in the fourth quarter when customer deposits for future ice contracts are received, and the lowest cash flow is in the summer months, when traffic is reduced.

Mitigating factors and strategies:

- Various programs are developed to increase traffic during the summer period.
- Variable operating costs are reduced during the summer period.
- Seasonal credit line has been made available by the Company's lender.

Competition

The recreation industry is highly competitive and Canlan competes with other private and municipal operators in various major markets. Other private operators may have

more resources and less debt than Canlan, and municipal operators can operate at a loss for an indefinite period without the same negative consequences such losses would have on private companies.

Mitigating factors and strategies:

- Canlan has developed customer loyalty by providing superior customer service and facilities.
- The ice rink industry is capital intensive with high start up expenses; therefore barriers to enter the business exist.
- We have developed expertise in all aspects of the ice rink development and multi-sport complex operations.

Employee and Union Relations

The Company has unionized employees at four of its facilities. The presence of a unionized work force increases the possibility that a labour dispute will effect operations at a facility. The four union agreements will expire in October 2018, March 2020, November 2020 and February 2021. The Company may not be able to negotiate a new contract on favorable terms, which could result in increased operating costs as a result of higher wages or benefits paid to its unionized workers. If unionized workers engage in a strike or other work stoppage, the Company could experience a significant disruption in its operations or higher ongoing labour costs, which could have material adverse effects on the business, financial condition, results of operations and cash flows.

Mitigating factors and strategies:

- The Company maintains positive relationships with the unions and management and union representatives have bargained in good faith.
- The Company garners assistance and guidance from professional labour consultants where needed.

Key Personnel

The Company's future success depends, to a large extent, on the efforts and abilities of its executive officers. As the Company's ability to retain these executive officers is important to its success and growth, the loss of its executive officers could adversely affect the Company's business, financial condition, cash flows and results of operations.

Mitigating factors and strategies:

- The Company has established compensation policies for its executive officers that are commensurate with their responsibilities and with market conditions.
- The Company maintains an open and candid working environment where executive officers can offer input into business strategies and decisions.

Utility Costs

Electricity, natural gas and water are significant components of operating costs of our facilities and the Company is susceptible to fluctuations in the market price of energy and related regulatory charges. In addition, the Company may experience power fluctuations or outages or cannot maintain adequate sources of natural gas and water. These factors may have a material adverse effect on the Company's business, financial conditions, results of operations and cash flows.

Mitigating factors and strategies:

- The Company enters into medium-term energy contracts to mitigate the price fluctuations of gas and electricity.
- The Company carefully manages utility consumption through standard operating procedures and capital asset program.
- The Company has implemented an equipment replacement program, which utilizes newer technology for lights and refrigeration equipment.
- The Company has hired a full-time energy manager.

Interest Rate Risk

Mortgage debt of \$18.5 million, is subject to variable interest rates. For every 1% change in base market rates, interest expense will change by \$0.2 million per annum.

Mitigating factors and strategies:

- The Company has fixed the interest rate on \$35.5 million or 66% of its loans.

Control by Principal Shareholder and Liquidity of Common Shares

The principal shareholder, Bartrac Investments Ltd. holds 10,075,947 Common Shares and controls approximately 75% of the aggregate voting power of the Corporation, which will allow it to control substantially all the actions taken by the shareholders of the Company, including the election of the directors. In addition, at the date of this MD&A, a Trust in the U.S. holds 2,160,200 Common shares, which represents 16.2% of total outstanding Common Shares. Such concentration of ownership could also have the effect of delaying, deterring, or preventing a change of control of the Company that might otherwise be beneficial to its shareholders and may also discourage acquisition bids for the Company and limit the amount certain investors may be willing to pay for the Common Shares.

Critical Accounting Policies and Estimates

Canlan's significant accounting policies are described in Note 3 to the consolidated financial statements. The preparation of the consolidated financial statements in conformity with IFRS requires us to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Key sources of estimation uncertainty are the areas where assumptions and estimates have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities. These are:

Revenue Recognition

Revenue from sport surface rental contracts, programs and leagues is recognized as games and lessons are played and collection is reasonably assured. Deferred revenue relates to amounts received in advance for the Company's adult recreational leagues. A

certain amount of judgment is required in the determination of revenue recognition based on the Company's estimates. Any differences are recognized upon completion of the season.

Accounts Receivable

In determining the valuation of accounts receivable and the allowance for doubtful accounts, the Company relies on current customer information, payment history, and trends.

Impairment and Recoverability of Property Plant and Equipment

When impairment indicators exist, the recoverability of the Company's recreational properties is based on future discounted cash flows expected to be generated from such assets. These cash flows are based on management's approved budgets and projections. When appropriate, third-party appraisals will also be used to assess the recoverability of recreational properties. Judgments are required in assessing impairment indicators.

Useful Lives of Property Plant and Equipment

Property, plant, and equipment are depreciated on a straight-line basis over their estimated useful life. Approximately 78% of the Company's total assets are comprised of recreational properties. The selection method of depreciation and length of the depreciation period could have a material impact on depreciation expense and the net book value of the Company's assets. Assets may become obsolete or require replacement before the end of their estimated useful lives, in which case any remaining unamortized costs would be written off.

Accounting for Stock-based Compensation

The fair value of the Company's stock appreciation rights ("SARs") is based on certain estimates used in applying the Black-Scholes pricing model. The rights are cash-settled and are classified as a liability and re-measured to fair value at each reporting date by recognizing compensation cost over the life of the SARs based on the vesting terms of each tranche.

Deferred Income Tax

Deferred income tax assets and liabilities are calculated by assessing temporary differences resulting from differing treatment of items for tax and accounting purposes and net operating losses carried forward. The valuation of deferred tax assets are measured based on management's estimates of future taxable income and expected timing of reversals of temporary differences.

Accounting Standards

Accounting Standards adopted in 2017

The Company adopted the amendments to IAS 7 - *Statement of Cash Flows* in 2017 to provide additional disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash and non-cash flow changes.

Future Accounting Standards

- (a) On May 28, 2014 the IASB issued IFRS 15 - *Revenue from Contracts with Customers*. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company has performed the five-step analysis in accordance with IFRS 15 on its major revenue streams to assess the potential impact of the new standard and has concluded that there will be no material impact to the consolidated financial statements upon adoption on January 1, 2018. Additional disclosures will be required to comply with IFRS 15.
- (b) IFRS 9 - *Financial Instruments*, issued in July 2014 replaces IAS 39 - *Financial Instruments: Recognition and Measurement* and deals with classification and measurement of financial assets and financial liabilities. The requirements of IFRS 9 represent a significant change from the existing requirements in IAS 39. The changes will affect the classification and measurement of financial assets and financial liabilities, the rules and requirements relating to hedge accounting as well as impairment of financial assets.

The mandatory effective date of IFRS 9 is January 1, 2018 and is required to be applied retrospectively when initially applied. The Company performed an analysis of its financial assets and liabilities and determined that adoption of this standard is not expected to have a significant effect on the consolidated financial statements of the Company.

- (c) IFRS 16 - *Leases* was issued in January 2016 and sets out a new model for lease accounting, replacing IAS 17 - *Leases*. IFRS 16 will be effective for accounting periods beginning on or after January 1, 2019. The Company is currently assessing the potential impact, if any, on its consolidated financial statements resulting from the application of IFRS 16.

Ivan Wu
Chief Financial Officer