



Management's Discussion and Analysis of Financial Condition and Results of Operations

**For the Nine Months Ended September 30, 2023
As of November 9, 2023**

Canlan Ice Sports Corp.

Management's Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) summarizes significant factors affecting the financial condition of Canlan Ice Sports Corp. ("Canlan", the "Company", "we" "our" or "us") as at September 30, 2023 and the consolidated operating results for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. This document should be read in conjunction with our unaudited condensed consolidated interim financial statements for the period ended September 30, 2023, the accompanying notes, and our audited consolidated financial statements for the years ended December 31, 2022 and December 31, 2021. All dollar amounts included in this MD&A are in Canadian dollars.

We have prepared these condensed consolidated interim financial statements in accordance with International Financial Reporting Standards ("IFRS").

Non-IFRS Financial Measure

In the following discussion, we define operating earnings (loss) as earnings (loss) after general and administrative expenses and before interest, depreciation, foreign currency exchange, gain (loss) on assets sold and income tax. Operating earnings (loss) is not a term that has specific meaning in accordance with IFRS, and may be calculated differently by other companies. The Company discloses operating earnings (loss) because it is a useful indicator of operating performance.

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.canlansports.com.

The date of this MD&A is November 9, 2023.

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 words as "may", "will", "expect", "believe", "plan", "anticipates", "budgets", "could", "should", 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; purchase or sale transactions; naturally caused incidences; 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.

Overview – Nine months ended September 30, 2023

- Total operating revenue of \$61.5 million increased by \$9.9 million or 19.3% compared to 2022;
- Food and beverage revenue increased by \$3.3 million or 59.2% compared to the same period last year;
- The company continued its building envelope renewal program investing approximately \$3.5 million (2022 - \$1.5 million) in roof remediation mainly at the Canlan Sports Scarborough and Canlan Sports Etobicoke locations. These projects are expected to complete by December 2023 and the renewal should provide long- term moisture protection and energy efficiencies for both of these facilities; and
- Operating earnings of \$9.9 million, before roof remediation expense, increased by \$2.4 million or 32.1% compared to the same period of 2022.

Overview of the Company

Canlan 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 Canlan Sports York location in Toronto, Ontario.

As at the date of this MD&A, the Company owns, leases or manages a network of 17 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 170 acres of land. Of the five facilities not owned fee-simple, one facility is operated under a long-term land lease arrangement, one facility under an operating agreement with a municipality and one facility under a lease agreement. 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. In typical years, our largest revenue source within this segment is adult hockey, catering to both men and women operating under the Adult Safe Hockey League (ASHL) brand.

Facility Portfolio:

	Facilities	Ice Surfaces	Indoor Turf Fields	Courts ^a	Total Playing Surfaces
Canada:					
British Columbia	5	14	1	-	15
Saskatchewan	2	6	-	-	6
Manitoba	1	3	1	-	4
Ontario	5	20	-	7	27
	13	43	2	7	52
USA:					
Illinois	4	6	3 ^b	13	22
	17	49	5	20	74

Note

a) Includes indoor multi-sport hard courts and outdoor beach volleyball courts

b) This includes one FIFA regulation field (divisible into multiple fields)

Canlan is a publicly traded Canadian Company with shares listed on the Toronto Stock Exchange (TSX) under 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 \$3.30 to \$5.30 range during the nine-month period ended September 30, 2023. 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, field, court rentals, and internal programming.
- 2. Food and beverage**
Sales from our licensed restaurants and concession operations within our facilities.
- 3. Sports stores**
Sales and rental of sports equipment, apparel, and skate sharpening services.
- 4. Management and consulting**
Fees from managing facilities owned by third parties and consulting engagements.
- 5. Sponsorship**
Revenue from sponsorship and advertising sales.
- 6. Space rental**
Rental of space within our facilities.

Selected Financial Information

The following selected consolidated financial information is for the nine months ended and as at September 30, 2023, 2022 and 2021. This data should be read together with the unaudited condensed consolidated interim financial statements for the periods ended September 30, 2023, 2022 and 2021.

Our condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards and are stated in Canadian dollars.

in thousands, except earnings per share (unaudited)

As at and for the nine months ended September 30,	2023	2022	2021
Statement of Operations Data:			
Revenue	\$ 61,534	\$ 51,585	\$ 21,289
Other income - Government subsidy	-	-	6,408
Expenses ⁽¹⁾	(48,853)	(40,626)	(22,385)
General & administration expenses	(6,283)	(5,015)	(3,966)
Earnings before the undernoted (Operating earnings)	6,398	5,944	1,346
Other expenses:			
Depreciation	(5,750)	(6,432)	(5,838)
Finance expenses	(1,530)	(1,803)	(1,987)
Foreign exchange gain	5	13	21
Gain on interest rate swaps	1,227	541	310
Gain on sale of assets	10	79	1,500
Gain on early lease termination	-	4,530	-
Tax recovery (expense)	35	(634)	956
Net earnings (loss)	\$ 395	\$ 2,238	\$ (3,692)
Other comprehensive income (loss)	(76)	2,241	(77)
Total comprehensive income (loss)	\$ 319	\$ 4,479	\$ (3,769)
Basic and fully diluted earnings (loss) per share	\$ 0.03	\$ 0.17	\$ (0.28)
Balance Sheet Data:			
Cash	\$ 13,179	\$ 15,933	\$ 17,175
Current assets (excluding cash)	5,590	4,724	3,120
Capital assets	94,157	96,835	99,179
Investment	350	350	350
Other assets	5,289	2,012	5,288
Total assets	\$ 118,565	\$ 119,854	\$ 125,112
Current liabilities, excluding debt	\$ 24,654	\$ 21,963	\$ 18,568
Mortgage debt	41,454	40,708	55,176
Lease liabilities	5,030	11,205	11,500
Deferred tax liabilities and others	1,657	1,083	1,929
Total liabilities	72,795	74,959	87,173
Shareholders' equity	45,770	44,895	37,939
	\$ 118,565	\$ 119,854	\$ 125,112
Dividends declared	\$ 1,200	\$ -	\$ -

(1) Operating expenses include all operating costs related to the operation of our facilities, excluding depreciation.

Review of Operations

Three Months Ended September 30, 2023 Compared to Three Months Ended September 30, 2022

Total operating revenue of \$17.3 million increased by \$1.7 million or 10.8% as third-party surface rentals, tournament registrations and food and beverage sales were all higher than 2022.

Operating expenses include all costs directly related to the operations of our recreation properties. Total operating expenses of \$18.3 million increased by \$3.6 million or 24.0%. The increase was principally due to additional food and beverage costs to service increased restaurant traffic and increased investment in roof remediation projects compared to the prior year. The increase in Q3 roof remediation expenses was approximately \$2.0 million when compared to Q3 2022. These projects are part of the Company's master roof renewal plan that began in 2018 that is designed to improve moisture protection and energy efficiencies in multiple locations.

Despite general inflationary pressures on input costs, facility expenses have been effectively managed through efficient scheduling, energy contracts, and negotiations with key vendors where possible.

Total G&A expenses of \$2.2 million increased by \$0.6 million or 33.6% mainly due to one-time consulting fees and increased labour expense that resulted from a combination of factors:

- a) The accrual of retirement compensation expense;
- b) The placement of corporate positions that were vacant in 2022; and
- c) Adding talent to execute new product development and to augment support to facility operations in the areas of recruiting, training, and providing operations with relevant and timely intelligence with which to make more informed business decisions.

After G&A, the Q3 operating loss was \$3.3 million compared to \$0.9 million in 2022 mainly due to the increased roof remediation expenses incurred.

Total depreciation expense was \$1.9 million compared to \$2.5 million in 2022. Net finance costs of \$0.6 million remained consistent with 2022 due to a combined effect of increased interest income earned on surplus cash and higher debt interest rates when compared to Q3 2022. In Q4 2022, the Company fixed its interest rates on all of its long-term bank debt (see **Review of Liabilities and Shareholders' Equity – Debt**). During the three months ended September 30, 2023, the Company recorded a mark-to-market gain of \$0.7 million from a change in the value of interest rate swap contracts compared to a nominal amount in 2022. After recording income tax recoveries of \$1.2 million (2022 – an expense of \$0.2 million), net loss was \$3.9 million or \$0.29 loss per share compared to net earnings of \$0.4 million or \$0.03 earnings per share in the prior year, as prior year results included an extraordinary accounting gain on early lease termination of \$4.5 million.

In addition, foreign exchange (FX) translation gains related to U.S. subsidiaries was \$0.7 million compared to \$1.8 million in 2022. Period end FX adjustments of U.S. assets and liabilities are accounted for as other comprehensive income or loss.

Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022

Revenue by business segment:

in thousands

Nine months ended September 30	2023	2022
Ice and field sales	\$ 48,999	\$ 42,859
Food and beverage (F&B)	8,886	5,583
Sports store	726	556
Sponsorship	912	697
Space rental	1,433	1,364
Management and consulting fees	249	201
Other	329	325
Total revenue	\$ 61,534	\$ 51,585

Total operating revenue of \$61.5 million increased by \$9.9 million or 19.3% as sales from third-party surface rentals, the ASHL, Canlan tournament registrations, and instructional programs all increased compared to the prior year. The higher surface utilization and the ability to hire sufficient staff members also resulted in an increase of F&B revenue by \$3.3 million or 59.2%.

Operating expenses include all costs directly related to the operations of our recreation properties. Total operating expenses of \$48.9 million increased by \$8.2 million or 20.3% mainly due to higher operating expenses directly related to servicing increased customer volumes and higher roof remediation costs of \$3.5 million incurred so far compared to \$1.5 million incurred in 2022.

Total G&A expenses of \$6.3 million increased by \$1.3 million or 25.3% mainly due to increased labour costs that resulted from a combination of factors:

- a) The accrual of retirement compensation expense;
- b) The placement of corporate positions that were vacant during 2023; and
- c) Adding talent to execute new product development and to augment support to facility operations in the areas of recruiting, training, and providing operations with relevant and timely intelligence with which to make more informed business decisions.

After G&A, operating earnings were \$6.4 million compared to \$5.9 million in 2022.

Total depreciation expense was \$5.8 million compared to \$6.4 million in 2022. Net finance costs of \$1.5 million decreased by \$0.3 million from last year mainly due to increased interest income earned on surplus cash. After recording a nominal income tax recovery (2022 – an income tax expense of \$0.6 million), net earnings was \$0.4 million or \$0.03 per share compared to \$2.2 million or \$0.17 per share in the prior year. Included in 2022 net earnings was a one-time gain on early lease termination of \$4.5 million.

U.S. currency foreign exchange (FX) translation related to U.S. operations resulted in an FX loss of \$0.1 million compared to an FX gain of \$2.2 million in 2022. Period end

FX adjustments related to U.S. assets and liabilities are accounted for as other comprehensive income or loss.

Earnings by Quarter

The Company's quarterly results for the last 8 quarters are as follows:

in thousands, except net earnings (loss) per share (unaudited)

	2023			2022				2021
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Gross revenue	\$ 17,246	\$ 19,811	\$ 24,477	\$ 22,143	\$ 15,564	\$ 17,073	\$ 18,948	\$ 19,104
Government subsidy	-	-	-	-	-	-	-	129
Operating expenses	(18,330)	(15,505)	(15,018)	(15,103)	(14,779)	(13,362)	(12,485)	(12,968)
	(1,084)	4,306	9,459	7,040	785	3,711	6,463	6,265
General & administration	(2,197)	(2,055)	(2,031)	(2,340)	(1,644)	(1,762)	(1,609)	(1,813)
Operating earnings (loss)	(3,281)	2,251	7,428	4,700	(859)	1,949	4,854	4,452
Depreciation	(1,908)	(1,912)	(1,930)	(1,947)	(2,479)	(1,978)	(1,975)	(1,963)
Finance expense	(612)	(469)	(449)	(625)	(629)	(647)	(527)	(598)
Foreign exchange gain (loss)	6	(1)	-	(2)	12	4	(3)	(2)
Gain (loss) on interest rate swaps	700	1,107	(580)	104	34	192	315	203
Gain (loss) on sale of assets	-	-	10	27	(27)	106	-	10
Gain on early lease termination	-	-	-	-	4,530	-	-	-
Earnings (loss) before taxes	(5,095)	976	4,479	2,257	582	(374)	2,664	2,102
Income tax recovery (expense)	1,243	(174)	(1,034)	235	(218)	131	(547)	498
Net earnings (loss)	\$ (3,852)	\$ 802	\$ 3,445	\$ 2,492	\$ 364	\$ (243)	\$ 2,117	\$ 2,600
Net earnings (loss) per share	\$ (0.29)	\$ 0.06	\$ 0.26	\$ 0.19	\$ 0.03	\$ (0.02)	\$ 0.16	\$ 0.19

Liquidity and Capital Resources

At September 30, 2023, cash on hand was \$13.2 million compared to \$18.5 million from December 31, 2022. In addition to available cash, the Company also has access to \$7.9 million of a \$10.0 million revolving credit facility that forms part of its bank term debt package (see “**Review of Liabilities and Shareholders’ Equity**”). This revolving facility can be drawn upon at any time to fund working capital if required.

For the nine months ended September 30, 2023, cash from operations, less interest paid on debt and leases was \$3.8 million compared to \$5.2 million a year ago.

In terms of finance activities, \$1.4 million was used for scheduled principal repayments of term debt and \$0.7 million was used for scheduled repayment of equipment and property lease obligations. New debt of \$3.2 million was drawn to help finance the purchase of Canlan Sports Libertyville as the Company exercised its option to purchase the facility in February 2023. The exercise of the purchase option also resulted in the relief of the associated right-of-use lease liability of \$4.6 million. In addition, \$1.2 million was used to distribute dividends declared during Q4 of 2022 and the first two quarters of 2023.

Investing activities principally related to \$4.2 million invested in capital expenditures during the nine months ended September 30, 2023 (\$2.7 million invested during same period 2022). Capital projects in 2023 mainly consisted of new refrigeration and dehumidification equipment, and HVAC systems to enhance air quality control in various facilities.

The following table provides a summary of cashflows for the nine months ended September 30:

in thousands

Nine months ended September 30	2023	2022
Cash provided by (used in):		
Operations	\$ 3,833	\$ 5,191
Financing	(3,487)	365
Investing	(4,489)	(2,476)
Foreign currency change	(10)	323
Dividends paid	(1,200)	-
Net cash flow	<u>\$ (5,353)</u>	<u>\$ 3,403</u>

The following table provides a reconciliation of operating earnings to cash flow from operations:

<i>in thousands</i>	2023	2022
Nine months ended September 30		
Operating earnings	\$ 6,398	\$ 5,944
Changes in working capital items	(847)	824
Net interest expense	(1,701)	(1,710)
Income tax effect included in changes in working capital	(4)	-
Reduction on obligations under lease liabilities		306
Unrealized foreign currency gain	(13)	(173)
Cash flow from operations	<u>\$ 3,833</u>	<u>\$ 5,191</u>

Review of Assets

The table below summarizes the Company's asset base:

<i>in thousands</i>	September 30, 2023	December 31, 2022
Properties	\$ 94,157	\$ 95,523
Cash	13,179	18,532
Accounts receivable	2,735	2,184
Inventory	620	607
Prepaid expenses and other assets	2,846	1,618
Investment	350	350
Deferred income taxes	2,833	2,282
Interest rate swaps	1,845	617
	<u>\$ 118,565</u>	<u>\$ 121,713</u>

At September 30, 2023, total properties of \$94.2 million decreased by \$1.4 million mainly due to scheduled depreciation offset by \$4.2 million of capital expenditures during the nine months ended September 30, 2023.

Cash on hand at September 30, 2023 was \$13.2 million compared to \$18.5 million at December 31, 2022. See "**Liquidity and Capital Resources**" for sources and uses of cash.

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

Review of Liabilities and Shareholders' Equity

The table below summarizes the Company's capital structure:

<i>in thousands</i>	September 30, 2023	December 31, 2022
Debt	\$ 41,454	\$ 39,812
Deferred revenue and customer deposits	13,870	14,081
Accounts payable	10,784	9,693
Lease payable - right-of-use assets	5,030	10,331
Deferred income taxes	1,657	1,145
	72,795	75,062
Shareholders' equity	45,770	46,651
	\$ 118,565	\$ 121,713

At September 30, 2023, total debt of \$41.5 million increased by \$1.6 million mainly due to additional debt drawn to help finance the purchase of Canlan Sports Libertyville, offset by scheduled principal repayments. Total lease liabilities outstanding of \$5.0 million decreased by \$5.3 million mainly due to scheduled lease payments and the extinguishment of a lease liability resulting from the exercise of the option to purchase Canlan Sports Libertyville in February 2023.

Deferred revenue and customer deposits represent customer registration and rental fees received in advance of when ice and field times are used. At September 30, 2023, customer deposits totaled \$13.9 million compared to \$14.1 million at the end of 2022.

Debt

As at September 30, 2023, bank debt and related terms consist of the following:

- 1) \$25.3 million non-revolving loan amortized over 25 years, maturing on November 30, 2027, interest at BA rate plus 1.85% payable monthly. The Company has entered into an interest rate swap contract with a term from June 21, 2023 to November 21, 2027, to fix the interest rate at 5.34% per annum payable monthly. At September 30, 2023, the balance outstanding was \$24.2 million;
- 2) \$5.2 million non-revolving loan amortized over 25 years, maturing on November 30, 2027, interest at BA rate plus 1.85% per annum payable monthly. The Company entered into an interest rate swap contract, maturing on November 30, 2027, to fix the interest rate at 5.50% per annum payable monthly. At September 30, 2023, the balance outstanding was \$5.1 million;
- 3) \$10.0 million revolving loan amortized over 25 years, maturing on November 30, 2027, interest at BA rate plus 1.85% per annum payable monthly. The Company entered into an interest rate swap contract, maturing on November 30, 2027, to fix the interest rate at 5.50% per annum payable monthly. At September 30, 2023, the balance outstanding was \$2.1 million with \$7.9 million available;
- 4) \$20.0 million revolving capital expenditure loan amortized over 25 years, maturing on November 30, 2027, interest at BA rate plus 1.85% per annum payable monthly. The Company entered into an interest rate swap contract, maturing on November 30, 2027, to fix the interest rate at 5.50% per annum payable monthly. At September 30, 2023, the balance outstanding was \$2.3 million with \$17.7 available for capital expenditures;

- 5) \$8.5 million loan amortized over 15 years, maturing on September 30, 2027, interest at CDOR plus 2.1% per annum payable monthly. In February 2023, this loan facility was increased by \$3.2 million to finance the purchase of a sports complex in Libertyville, Illinois as discussed above (see “**See Liquidity and Capital Resources**”). During the nine months ended September 30, 2023, the Company entered into an interest rate swap contract, maturing on September 29, 2027 to fix the interest rate at 5.70% per annum payable monthly. At September 30, 2023, the balance outstanding was \$8.0 million; and
- 6) \$0.7 million demand revolving operating loan, interest at Prime rate plus 0.25% per annum. No amounts have been drawn on this loan to date.

The Company was in compliance with all debt covenants as at September 30, 2023.

Share Capital

The total and weighted average number of shares issued and outstanding at September 30, 2023 and December 31, 2022 was 13,337,448.

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

Transactions with Related Parties

Canlan’s controlling shareholder, Bartrac Investments Ltd., owns approximately 10.1 million shares of the Company, or 75.5% 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 during the nine months ended September 30, 2023.

A director of the Company is the chairman of a vendor from which the Company purchases services in the normal course of business. There were no purchases from this vendor for the nine months ended September 30, 2023 and 2022.

During the nine months ended September 30, 2023 and 2022, there were no transactions with key management personnel other than in the ordinary course of their employment or directorship agreements.

Financial Instruments

The Company has the following financial instruments:

	Accounting classification	Fair value level
Financial assets not measured at fair value:		
Cash and cash equivalents <i>(i)</i>	Amortized cost	1
Accounts receivable <i>(i)</i>	Amortized cost	2
Financial assets measured at fair value:		
Investment <i>(iv)</i>	FVOCI ⁽¹⁾	3
Interest rate swaps <i>(iii)</i>	Financial assets at FVTPL ⁽²⁾	2
Financial liabilities not measured at fair value:		
Accounts payable and accrued liabilities <i>(i)</i>	Amortized cost	2
Lease liabilities <i>(ii)</i>	Amortized cost	2
Debt	Amortized cost	2

⁽¹⁾ FVOCI - fair value through other comprehensive income

⁽²⁾ FVTPL - fair value through profit or loss

- (i)* The carrying values of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities are considered by management to approximate their fair values due to their short-term nature.
- (ii)* The carrying values of lease liabilities are considered by management to approximate their fair values due to the lease rate at reporting date being consistent with the lease rate at inception date.
- (iii)* In November 2022 and January 2023, respectively, the Company entered into interest rate swap agreements (five-year terms) to fix the interest rate on certain of its debt. The fair value of this derivative instrument has been presented as an interest rate swap on the statement of financial position. Changes in fair value of the instrument are recognized in net earnings for the period. For the nine months ended September 30, 2023, a gain of \$1.2 million (2022 – \$0.5 million) was recognized.
- (iv)* The carrying value of the investment is considered by management to approximate its fair value.

The Company had no “other comprehensive income or loss” transactions related to financial instruments during the nine months ended September 30, 2023 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 September 30, 2023.

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 and for the period ended September 30, 2023. 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 September 30, 2023.

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 during normal operations, and the addition of risk factors arising from the COVID-19 pandemic that originated in 2020, are summarized below.

COVID-19 and other Pandemic or Epidemic Diseases

Outbreaks or the threat of outbreaks of viruses or other contagions or epidemic or pandemic diseases, including the COVID-19 outbreak of 2020, may lead to voluntary or mandatory building closures, government restrictions on travel, or gatherings, which may lead to a general slowdown of economic activity and disrupt our workforce and business operations. Such occurrences could have a material adverse effect on the demand for recreation services. The pace of recovery following such occurrences cannot be accurately predicted, nor can the impact on the Company's cash flows, results of operations (that are sensitive to seasonality), and the Company's ability to obtain additional financing, or re-financing. Due to the COVID-19 pandemic the Company created an exposure control program that would be put into effect, when required, to prevent or limit the spread of disease.

Mitigating factors and strategies:

- Management establishes control measures and enhanced standard operating procedures to help protect the health and safety of employees and guests.
- During periods of reduced business activity, management establishes cost management measures with the objective of preserving cash and mitigating the effects of a reduction in business activity.
- Through collaboration with senior lenders, the Company arranges, where possible, debt covenant waivers, deferrals of principal repayments and/or additional credit facilities that can be accessed if necessary.
- During such occurrences, financial support for businesses and individuals may be made available by various levels of government that the Company will access where appropriate.

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 may 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 our 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.
- The Company continuously evaluates asset profitability and cost of capital to optimize return on capital.

- During the period where business operations were impacted by the COVID-19 pandemic, the Company had arranged for debt covenant waivers and/or amendments.

Infrastructure Expenditures

The Company's recreation facilities consist of property, 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 sports we host, 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:

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

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

Expansion and U.S. Operations

The Company's expansion strategies may include start-up of operations in new markets or the creation of new product offerings. Should market conditions of new locations or consumer preferences surrounding new products vary significantly from what was anticipated, the Company's financial results could be adversely affected.

Specifically, 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.

Operating in the U.S. also creates foreign currency risk on sales and purchases that are denominated in U.S. dollars. 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 anticipates that earnings from U.S. business activities are adequate to service the working capital 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 of target investments.
- The Company performs extensive research and due diligence to evaluate and test new product offerings to ensure consumer demand matches the product offering prior to a full product launch.
- Management closely monitors the Canadian-U.S. foreign exchange rate and could utilize hedging instruments if necessary. 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 and under normal business conditions, approximately 57% of total revenues and virtually all of the operating profit are generated in the first and fourth 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 traditionally slower summer period.
- Variable operating costs are reduced during the summer period.
- Management ensures cash reserves are adequate to finance working capital throughout the off-peak seasons.

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 ice rink development and multi-sport complex operations.

Climate Change

Canlan, like many other companies, is subject to climate change-related risks. Government regulations and public perception may adversely impact Canlan's operations. Climate change may also increase the frequency and intensity of severe weather events, which may negatively impact our facilities, cause property damage or other disruption to the Company's operations. Natural disasters, climate change impacts and disruptive events may impact our operations, customer satisfaction and client experience, and may result in increased insurance premiums or deductibles, and the decrease in the availability of, or loss of, coverage. To reduce the potential impact that business operations may pose on the environment, the Company has already implemented and will continue to implement the following:

- Invest in energy efficient equipment and fixtures to cool, heat and light Canlan Sports facilities and closely monitor and maintain the energy efficiency of the equipment throughout its life-cycle.
- Gradually transition its fleet of gas-powered ice re-surfacers to electric technology.
- Continuously monitor utility usage, research, and develop new processes and technologies to reduce energy, water and paper consumption.

Employee and Union Relations

The Company has unionized employees at four of its facilities. The Company may not be able to negotiate a new contract on favourable 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 and other key personnel. As the Company's ability to retain these key personnel and executive officers is important to its success and growth, the loss of such personnel could adversely affect the Company's business, financial condition, cash flows and results of operations.

Mitigating factors and strategies:

- The Company has established short-term and long-term compensation and incentive programs 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:

- Where considered appropriate, 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 and reduces energy consumption.
- The Company employs a full-time subject matter expert in energy management.

Privacy and Security of Information

In the ordinary course of our business we receive, process and store information from our guests and others, including personal information of our guests and employees often through online operations that depend upon the secure communication of information over public networks and in reliance on third party service providers. The secure operation of the networks and systems on which this information is stored, processed and maintained is critical to our business operations and strategy. Although we maintain systems to protect this information and rely on systems security of third-party software service providers, these systems must be continuously monitored and updated and could be compromised, in which case our guest information could become subject to intrusion, tampering or theft. Any compromise of our data security systems or the security systems of our third-party service providers could have an adverse impact on our reputation, be costly to remediate and could have a material adverse effect on our business.

Mitigating factors and strategies:

- The Company has deployed network security measures and performs periodic security compliance audits.
- Information security has been made a part of the Company's Enterprise Risk Management Strategy to provide oversight over this particular risk.

Interest Rate Risk

Unhedged term debt or equipment lease liabilities are subject to variable interest rates.

Mitigating factors and strategies:

- The Company has fixed the interest rate on all of its term debt currently outstanding (\$41.7 million) with interest rate swap contracts (see “**Review of Liabilities and Shareholders’ Equity – Debt**”).
- Management closely monitors market conditions and works with its senior lenders to mitigate interest rate risk where possible in periods of rising borrowing costs.

Control by Principal Shareholder and Liquidity of Common Shares

The principal shareholder, Bartrac Investments Ltd. holds 10,075,947 Common Shares and controls approximately 75.5% of the aggregate voting shares 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 2,308,500 Common Shares, which represents 17.3% 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 audited 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:

Recoverability of Property, Plant and Equipment - Facilities

At each reporting date, the Company performs an assessment for indicators of impairment for each cash-generating unit. If any such indication exists, the Company estimates the cash-generating unit’s recoverable amount based on the greater of its value in use and its fair value less costs to sell. When the carrying amount exceeds the recoverable amount, an impairment loss is recognized in an amount equal to the excess. In determining the recoverable amount of the cash-generating units under the value in use method, significant assumptions include estimated revenue and expense growth rates, pre-tax discount rates, and useful lives of property, plant and equipment. In determining the recoverable amount of the cash-generating units under the fair value

less costs to sell method, significant assumptions include the capitalization rate and the estimated value per square feet of the recreational property.

Useful Lives of Property, Plant and Equipment

Property, plant, and equipment are depreciated on a straight-line basis over their estimated useful life and residual values which are determined through exercise of judgment. Approximately 79% of the Company's total assets are comprised of recreational properties. The 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 expensed.

Deferred Income Tax

Deferred income tax assets and liabilities require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize or recognize net deferred tax assets, if any, at the reporting date could be impacted.

Ivan Wu
Chief Financial Officer