



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

**For the Years Ended December 31, 2022 and 2021
As of March 23, 2023**

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, 2022 and 2021. This document should be read in conjunction with our audited consolidated financial statements for the years ended December 31, 2022 and 2021 and accompanying notes. The results reported herein have been prepared in accordance with International Financial Reporting Standards ('IFRS') and are presented in Canadian dollars.

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, early lease termination and interest rate swap, 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 March 23, 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" 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.

Overview – Year Ended December 31, 2022

- Total operating revenue of \$73.7 million increased by \$33.3 million compared to a year ago;
- Same-facility ice and field revenue reached approximately 93% of pre-pandemic levels;
- Operating earnings of \$10.6 million increased by \$4.8 million compared to a year ago;
- Net earnings for the year was \$4.7 million compared to a net loss of \$1.1 million in 2021;
- The Company refinanced its bank debt credit facilities with a package that reduces cash requirements on annual debt service by approximately 37% and fixes interest rates at 5.50% or lower on 87% of its debt to reduce interest rate risk;
- Canlan received cash consideration of \$4.5 million in September 2022 to surrender its lessee position of a sports complex lease prior to the maturity date of the lease agreement;
- The Company continued to make important progress in reducing its carbon footprint while also improving facility indoor air quality by investing in new electric ice re-surfacers, roof replacement initiatives, and enhanced plant automation systems; and
- The Company reviewed its dividend policy in November 2022 and resumed a quarterly dividend distribution of \$0.03 a share.

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.

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 a further one facility under lease agreements. 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 these have traded in the \$3.20 to \$4.35 range during 2022. The Company has not issued any shares from treasury since November 2004.

The Company derives revenue from six primary sources:

- 1. Ice and field**
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 as at December 31, 2022, 2021, and 2020 and each of the quarters and years then ended has been derived from our 2022 and 2021 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>	2022	2021	2022	2021	2020
Statement of Operations Data:					
Revenue	\$ 22,143	\$ 19,104	\$ 73,728	\$ 40,393	\$ 39,259
Other income - Government subsidy	-	129	-	6,537	6,371
Expenses ⁽¹⁾	(15,103)	(12,968)	(55,729)	(35,353)	(39,420)
General & administration expenses	(2,340)	(1,813)	(7,355)	(5,779)	(5,274)
Earnings before the undernoted (Operating earnings)	4,700	4,452	10,644	5,798	936
Other expenses:					
Depreciation	(1,947)	(1,963)	(8,379)	(7,801)	(7,951)
Finance expenses	(625)	(598)	(2,428)	(2,585)	(2,447)
Foreign exchange gain (loss)	(2)	(2)	11	19	45
Gain (loss) on interest rate swap	104	203	645	513	(1,133)
Gain on early lease termination	-	-	4,530	-	-
Gain on sale of assets	27	10	106	1,510	2,297
Tax recovery (expense)	235	498	(399)	1,454	1,890
Net earnings (loss)	\$ 2,492	\$ 2,600	\$ 4,730	\$ (1,092)	\$ (6,363)
Other comprehensive income (loss)	(336)	(123)	1,905	(200)	(313)
Total comprehensive income (loss)	\$ 2,156	\$ 2,477	\$ 6,635	\$ (1,292)	\$ (6,676)
Basic and fully diluted earnings (loss) per share	\$ 0.19	\$ 0.19	\$ 0.35	\$ (0.08)	\$ (0.48)
Balance Sheet Data:					
Cash			\$ 18,532	\$ 12,530	\$ 7,480
Current assets (excluding cash, and assets held-for-sale)			4,264	3,576	3,990
Capital assets			95,523	97,432	98,771
Investment			350	350	350
Other assets			2,838	2,724	4,840
Non-current interest rate swap			206	-	-
Assets held-for-sale			-	-	6,053
Total assets			\$ 121,713	\$ 116,612	\$ 121,484
Current liabilities, excluding debt			\$ 23,774	\$ 20,181	\$ 13,842
Mortgage debt			39,812	43,796	56,168
Lease liabilities			10,331	11,221	6,933
Deferred tax liabilities			1,145	970	2,292
Interest rate swap			-	28	541
Total liabilities			75,062	76,196	79,776
Shareholders' equity			46,651	40,416	41,708
			\$ 121,713	\$ 116,612	\$ 121,484
Dividends declared			\$ 400	\$ -	\$ -

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

Competitive Strengths

The Company believes that it has the following competitive strengths:

- **Our Team.** Canlan typically employs approximately 1,000 full and part-time employees in Canada and the USA. Through training and internal communications, we have established Canlan as the place to work in our industry. Our employees have industry-specific knowledge and are focused on providing quality customer service within a safe environment. In addition, Canlan's executive team plans and monitors 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 the largest adult recreational hockey league in North America. The ASHL offers superior services and competition in a fun environment. In a typical year, the league operates in all seasons, and has approximately 60,000 players in various divisions based on skill and age.
- **Diversified Recreation.** In addition to ice surfaces, the Company also operates multi-sport complexes containing turf fields and sport courts on which many other sports can be played such as 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 four provinces in Canada plus one U.S. state 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, we are able to negotiate national supply agreements with preferred pricing.

Review of Fiscal 2022 Operations

Revenue

Total operating revenue of \$73.7 million increased by \$33.3 million compared to 2021 as facilities resumed full operations and COVID-19 health restrictions were lifted. With the exception of Ontario during January 2022, all facilities were opened for full activities. Of total operating revenue, \$60.8 million related to surface revenue, \$8.3 related to food & beverage sales and the remainder related to sports stores, space rental, sponsorship and management fees.

Despite Ontario facilities having to suspend operations in January 2022, the full ASHL fall/winter and spring/summer seasons were completed in all regions. Revenue from contract surface rentals and the ASHL substantially returned to levels comparable to 2019 on a same-facility basis. However, same-facility revenue from youth hockey leagues and instructional programs were approximately 22% behind 2019 volume as post-pandemic demand for youth hockey leagues and summer camps has returned more gradually given hybrid home-office arrangements for parents, and strong

competition from alternative sports and leisure activities that experienced growth during the pandemic. Our operations teams have continued to enhance program and league offerings to create flexibility and adapt to consumer needs in each of the different markets.

Total revenue from food and beverage was \$8.3 million compared to \$1.9 million in 2021 and \$12.7 million in 2019. While surface bookings, leagues and programs were completely unrestricted from February 2022 onwards, restaurants and concessions were still not operating with normal hours or menu selections throughout the year due to labour supply shortages persistent in the hospitality industry. However, adequate staffing has been recruited in the fall/winter season enabling restaurants and concessions to operate at near-normal capacity during Q4 2022 and into the early months of 2023.

Revenue from sports stores, sponsorship, space rental, vending, and facility management fees totaled \$4.6 million compared to \$2.8 million in 2021 and \$5.4 million in 2019.

The Company recorded the following revenue by quarter:

<i>in thousands</i>	2022		2021	
	Revenue	% of total	Revenue	% of total
Q1	\$ 18,948	26	\$ 5,050	13
Q2	17,073	23	3,610	9
Q3	15,564	21	12,629	31
Q4	22,143	30	19,104	47
	\$ 73,728	100	\$ 40,393	100

As reported revenue, by business segment and geographic region are as follows:

<i>in thousands</i>	2022		2021	
	Sales	% of total	Sales	% of total
Ice and Field Sales	\$ 60,819	83	\$ 35,690	88
Food and Beverage	8,342	11	1,930	5
Sports Store	783	1	406	1
Sponsorship	1,201	2	551	1
Space Rental	1,796	2	1,339	3
Management & Consulting Fees	268	-	270	1
Other	519	1	207	1
	\$ 73,728	100	\$ 40,393	100

<i>in thousands</i>	2022		2021	
	Sales	% of total	Sales	% of total
Canada:				
British Columbia	\$ 17,448	24	\$ 10,648	27
Saskatchewan	6,710	9	4,116	10
Manitoba	4,153	5	1,553	4
Ontario	33,607	46	16,307	40
	61,918	84	32,624	81
USA	11,810	16	7,769	19
	\$ 73,728	100	\$ 40,393	100

Revenue generated from ice and field activities are broken down as follows:

<i>in thousands</i>	2022		2021	
	Revenue	% of total	Revenue	% of total
Adult hockey leagues	\$ 24,122	40	\$ 11,262	32
3rd party contract users	18,532	30	13,462	38
Camps, hockey & skating schools	5,552	9	3,949	11
Youth hockey leagues	2,369	4	1,837	5
Public programs & spot rentals	3,449	6	2,283	6
Tournaments	3,191	5	824	2
Soccer field rentals and leagues	2,871	5	1,569	5
Other	733	1	504	1
	\$ 60,819	100	\$ 35,690	100

Operating Expenses

Facility operating expenses of \$55.7 million increased by \$20.4 million or 57.6% compared to 2021 due to the return to full operations in 2022 and the completion of significant maintenance projects, some of which were deferred from the previous two years. In particular, the Company's roof remediation program was restarted with \$2.3 million incurred during the year. Company's roof remediation program that began in 2018, is a proactive six-year plan to renew roof structures of specific sports complexes to enhance weather resistance, structural protection, and energy conservation.

All other increases in operating expenses with respect to wages, utilities, customer service, and cost of goods sold were commensurate with the resumption and increase of business activity. While inflationary pressures were evident in many of the Company's expense categories, the increase in commodity pricing of energy would have potentially had the most significant increase from a percentage standpoint as a result of inflation in energy prices. However, the effect of pricing was moderated as Canlan entered into energy contracts at the end of 2021 to mitigate this risk. In addition, investments in new equipment and building automation technology also helped to reduce energy consumption and minimize the impact of pricing on utilities expenses.

Facility operating expenses by quarter were as follows:

<i>in thousands</i>	2022		2021	
	Costs	% of total	Costs	% of total
Q1	\$ 12,485	22	\$ 6,487	18
Q2	13,362	24	5,891	17
Q3	14,779	27	10,007	28
Q4	15,103	27	12,968	37
	\$ 55,729	100	\$ 35,353	100

Total G&A expenses of \$7.4 million increased by \$1.6 million or 27.3% mainly due provisions for performance-based compensation, higher general office and travel expenses as regular corporate activities resumed, and the centralization of certain staff positions resulting in a shift of wage expense to corporate G&A from the facility level. The intent of the centralization model is to provide more stream-lined processes in servicing customers and more consistency in the marketing and delivery of programs, while achieving efficiencies that help mitigate the labour supply shortages being experienced in the service sector.

After G&A, operating earnings were \$10.6 million compared to \$5.8 million in 2021. Excluding \$6.5 million of government subsidies in 2021, 2021 had an operating loss of \$0.7 million.

Non-Operating Gains and Expenses

During the year, a gain on early lease termination of \$4.5 million was recognized in the statement of earnings (loss). Canlan received cash consideration of \$4.5 million in September 2022 to surrender its lessee position of a sports-complex-lease prior to the maturity date of the lease and extension-option of the lease agreement.

Total depreciation expense was \$8.4 million compared to \$7.8 million in 2021 and finance costs of \$1.8 million decreased by \$0.3 million due to higher interest income in 2022.

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

A breakdown of net finance expense is as follows:

<i>in thousands</i>	2022	2021
Mortgage interest	\$ 1,647	\$ 1,723
Interest income	(208)	(40)
Lease liabilities interest	507	475
Mark-to-market gain on interest rate swap	(645)	(513)
Amortization of deferred financing costs and other	482	427
	<u>\$ 1,783</u>	<u>\$ 2,072</u>

Net Earnings

After recording income tax expense of \$0.4 million (2021 – recovery of \$1.5 million), net earnings were \$4.7 million or \$0.35 per share compared to a net loss of \$1.1 million or \$0.08 per share in the prior year.

Foreign Currency Translation and Other Comprehensive loss

Other comprehensive income (OCI) was \$1.9 million in 2022 compared to other comprehensive loss (OCL) of \$0.2 million in 2021. OCI or OCL comprises foreign currency translation adjustments related to the Company's U.S. subsidiaries.

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 not part of the Company's U.S. subsidiaries 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 (loss).

Review of Fourth Quarter 2022

Total operating revenue of \$22.1 million increased by \$3.0 million or 15.9% compared to 2021 as operations returned to 100% capacity in 2022 whereas in Q4 2021, operations were still starting to resume in certain regions when health restrictions were first lifted.

Revenue from contract surface rentals, instructional programs, soccer leagues, and the ASHL substantially returned to levels comparable to 2019 on a same-facility basis in Q4 2022.

In Q4, food and beverage (F&B) revenue was \$2.8 million compared to \$1.6 million in 2021 and \$3.4 million in 2019. F&B revenue has started to gain momentum during the fall/winter season with adequate staffing being recruited in all locations enabling restaurant and concession service during most available hours of the week, and the return of approximately 98% of business from ASHL and contract users.

Operating expenses of \$15.1 million increased by \$2.1 million or 16.5% from the prior year which was consistent with the increase in revenue. The increase was also due to the return to full F&B operations in Q4 2022 and the completion of significant maintenance projects including \$0.7 million of roof remediation expenses. Company's roof remediation program that began in 2018, is a proactive six-year plan to renew roof structures of specific sports complexes to enhance weather resistance, structural protection, and energy conservation.

Total G&A expenses of \$2.3 million increased by \$0.5 million or 29.1% mainly due to staff centralization at the corporate level and the provision for performance-based compensation as discussed above (see “**Review of Fiscal 2022 Operations**”). In addition, expenses related to general office, travel, and staff development & recognition returned to normal levels as management continues to transition operations back to normal levels.

After G&A expenses, operating earnings of \$4.7 million increased by \$0.2 million or 5.6% for the quarter compared to 2021. Operating margin was 21.2% in 2022 compared 23.3% in 2021 and 18.8% in 2019.

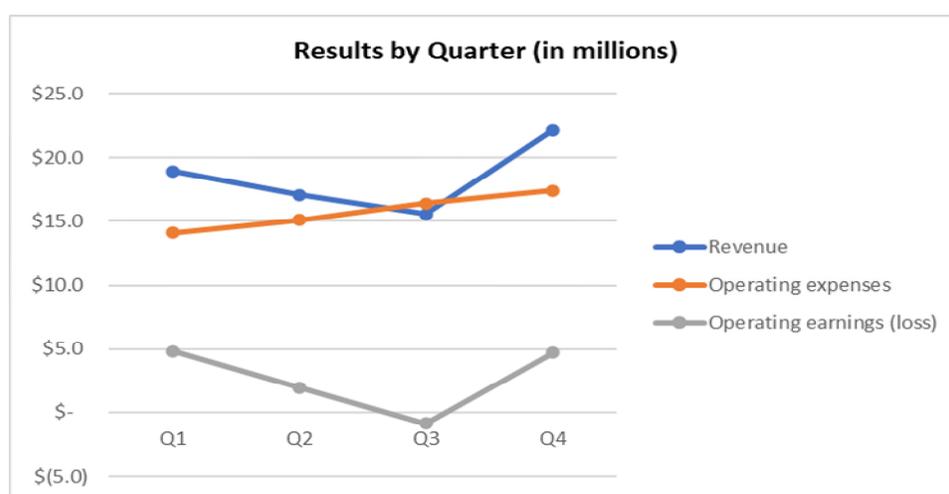
Total depreciation expense, finance expense, foreign exchange loss, gain on sale of assets, and gain on interest rate swap was \$2.4 million, consistent with 2021. After recording an income tax recovery of \$0.2 million (2021 – \$0.5 million), net earnings for the quarter were \$2.5 million or \$0.19 a share compared to \$2.6 million or \$0.19 a share a year ago.

Operating Earnings¹

The Company’s annual operating earnings are predominantly earned in the first and fourth fiscal quarters due to the seasonal nature of ice sports and indoor soccer, plus maintenance projects are usually completed during the slower months. In 2021, the pandemic presented extenuating circumstances that altered this pattern.

As-reported operating earnings by quarter for 2022 and 2021 are as follows:

<i>in thousands</i>		2022		2021
Q1	\$	4,854	\$	(378)
Q2		1,949		(1,352)
Q3		(859)		3,076
Q4		4,700		4,452
	\$	10,644	\$	5,798



¹ Non-IFRS measure – see explanation on page 1. See reconciliation to net earnings (loss) on page 11, and to cash flow on page 14.

Summary of Operations
For the years ended December 31

<i>in thousands</i>	2022	2021	2020
Revenue			
Ice rink and recreational facilities	\$ 73,728	\$ 40,393	\$ 39,259
Other income - government subsidy	-	6,537	6,371
Operating expenses	55,729	35,353	39,420
	17,999	11,577	6,210
General & administration	7,355	5,779	5,274
Operating earnings	10,644	5,798	936
Other gains (expenses)			
Depreciation	(8,379)	(7,801)	(7,951)
Gain on early lease termination	4,530	-	-
Gain on sale of assets	106	1,510	2,297
Foreign exchange gain	11	19	45
	(3,732)	(6,272)	(5,609)
Finance income (expenses)			
Finance costs	(2,636)	(2,625)	(2,638)
Finance income	208	40	191
Gain (loss) on interest rate swap	645	513	(1,133)
	(1,783)	(2,072)	(3,580)
Net earnings (loss) before taxes	5,129	(2,546)	(8,253)
Income tax expense (recovery)			
Current	595	(2,050)	(64)
Deferred	(196)	596	(1,826)
	399	(1,454)	(1,890)
Net earnings (loss)	4,730	(1,092)	(6,363)
Other comprehensive income (loss):			
<i>Items that may be reclassified subsequently to net earnings (loss):</i>			
Foreign currency translation differences	1,905	(200)	(313)
Total comprehensive income (loss)	\$ 6,635	\$ (1,292)	\$ (6,676)

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. Results of the last eight quarters have fluctuated mainly due to business activity interruptions resulting from the pandemic.

<i>in thousands</i>	2022				Total
	Q1	Q2	Q3	Q4	
Gross revenue	\$ 18,948	\$ 17,073	\$ 15,564	\$ 22,143	\$ 73,728
Government subsidy	-	-	-	-	-
Operating expenses	(12,485)	(13,362)	(14,779)	(15,103)	(55,729)
	6,463	3,711	785	7,040	17,999
General & administration	(1,609)	(1,762)	(1,644)	(2,340)	(7,355)
Operating earnings (loss)	4,854	1,949	(859)	4,700	10,644
Depreciation	(1,975)	(1,978)	(2,479)	(1,947)	(8,379)
Finance expense	(527)	(647)	(629)	(625)	(2,428)
Foreign exchange gain (loss)	(3)	4	12	(2)	11
Gain on interest rate swap	315	192	34	104	645
Gain on early lease termination	-	-	4,530	-	4,530
Gain (loss) on sale of assets	-	106	(27)	27	106
Net earnings (loss) before taxes	2,664	(374)	582	2,257	5,129
Income taxes	(547)	131	(218)	235	(399)
Net earnings (loss)	\$ 2,117	\$ (243)	\$ 364	\$ 2,492	\$ 4,730
Earnings (loss) per share	\$ 0.16	\$ (0.02)	\$ 0.03	\$ 0.19	\$ 0.35

<i>in thousands</i>	2021				Total
	Q1	Q2	Q3	Q4	
Gross revenue	\$ 5,050	\$ 3,610	\$ 12,629	\$ 19,104	\$ 40,393
Government subsidy	2,439	2,262	1,707	129	6,537
Operating expenses	(6,487)	(5,891)	(10,007)	(12,968)	(35,353)
	1,002	(19)	4,329	6,265	11,577
General & administration	(1,380)	(1,333)	(1,253)	(1,813)	(5,779)
Operating earnings (loss)	(378)	(1,352)	3,076	4,452	5,798
Depreciation	(1,945)	(1,913)	(1,980)	(1,963)	(7,801)
Finance expense	(611)	(643)	(733)	(598)	(2,585)
Foreign exchange gain (loss)	25	(7)	3	(2)	19
Gain on interest rate swap	131	112	67	203	513
Gain on sale of assets	23	22	1,455	10	1,510
Net earnings (loss) before taxes	(2,755)	(3,781)	1,888	2,102	(2,546)
Income taxes	625	1,174	(843)	498	1,454
Net earnings (loss)	\$ (2,130)	\$ (2,607)	\$ 1,045	\$ 2,600	\$ (1,092)
Earnings (loss) per share	\$ (0.16)	\$ (0.20)	\$ 0.08	\$ 0.19	\$ (0.08)

Liquidity and Capital Resources

Canlan's cash balance as at December 31, 2022 was \$18.5 million compared to \$12.5 million at year-end 2021. In addition to cash-on-hand, the Company also has access to a \$10.0 million revolving credit facility that forms part of its bank term debt package (see "**Review of Liabilities and Shareholders' Equity**"). As at December 31, 2022, the balance outstanding was \$2.2 million (2021 - \$2.3 million).

Cash provided by operations, less interest paid on debt and leases was \$10.6 million compared to \$12.1 million a year ago. Cash inflow from operations in 2021 includes approximately \$8.4 million of government wage and rent subsidies that were received during 2021 (of which \$1.9 million were accrued in 2020) that offset a portion of operating expense.

In terms of finance activities, net cash of \$5.9 million was used to reduce term debt and lease liabilities while \$4.5 million cash was received as consideration for Canlan's agreement to surrender its lease position of a sports complex before the maturity and lease option dates. In the prior year, cash used for principal repayments totaled \$15.7 million while cash provided by draws on our operating credit line totaled \$2.0 million.

In addition to the \$10.0 million revolving credit facility, the Company also continues to have available a \$20.0 million committed line of credit that can be utilized for sustaining or expansion capital expenditures. As at December 31, 2022 approximately \$2.3 million (2021 - \$2.5 million) of the line has been drawn for refrigeration and building equipment so \$17.7 million remains available for investment in capital expenditures.

In terms of investing activities, cash of \$3.7 million was used for capital expenditures and \$0.3 million was received for sale of used equipment. During the year, capital expenditures comprised of new LED light fixtures, two artificial field turf replacements, refrigeration equipment and eight new electric ice re-surfacers (six of which were lease-financed). In 2021, \$0.6 million of cash was used for capital expenditures while \$7.2 million was received for the sale of an inactive ice-rink property in Q3 2021.

Summarized Statement of Cash Flows:

<i>in thousands</i>	2022	2021
Cash inflows and (outflows) by activity		
Operating activities	\$ 10,849	\$ 12,116
Financing activities	(1,450)	(13,715)
Investing activities	(3,397)	6,649
	6,002	5,050
Cash position, beginning of year	12,530	7,480
Cash position, end of year	\$ 18,532	\$ 12,530

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

<i>in thousands</i>	2022		2021	
Operating earnings	\$	10,644	\$	5,798
Changes in working capital items		2,644		6,773
Net finance expense		(2,290)		(2,459)
Income tax (expense) recovery		(595)		2,050
Foreign exchange		(132)		(26)
Reduction on obligations under lease liabilities		306		-
Cash flow from operations		10,577		12,136
Add (deduct):				
Mortgage principal reduction		(4,121)		(14,499)
New debt		-		2,000
Capital expenditures		(3,696)		(584)
Lease payments		(1,777)		(1,216)
Net proceeds on early lease termination		4,448		-
Proceeds on sale of assets		299		7,233
Effect of changes in foreign currency rates		272		(20)
Change in cash position for the year	\$	6,002	\$	5,050

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.

<i>in thousands</i>	2023	2024	2025	2026	2027	Thereafter	Total
Accounts payable and accrued liabilities	\$ 9,693	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,693
Debt:							
Mortgage principal and interest	\$ 3,633	\$ 3,777	\$ 3,671	\$ 3,573	\$ 37,965	\$ -	\$ 52,619
Lease liabilities, including interest	5,766	1,030	649	550	394	5,413	13,802
	9,399	4,807	4,320	4,123	38,359	5,413	66,421
	\$ 19,092	\$ 4,807	\$ 4,320	\$ 4,123	\$ 38,359	\$ 5,413	\$ 76,114

Review of Assets

The table below summarizes the Company's asset base:

<i>in thousands</i>	2022	2021
Properties	\$ 95,523	\$ 97,432
Cash	18,532	12,530
Accounts receivable	2,184	2,298
Inventory	607	490
Prepaid expenses and other assets	1,618	1,601
Investment	350	350
Deferred income taxes	2,282	1,911
Interest rate swap	617	-
	\$ 121,713	\$ 116,612

At December 31, 2022, total properties of \$95.5 million decreased by \$1.9 million mainly due to scheduled depreciation offset by \$4.5 million of capital expenditures during the year.

Subsequent to December 31, 2022, the Company exercised a purchase option it had on a non-ice sportsplex facility in Libertyville, Illinois. On February 28, 2023, the complex was purchased by the Company for US\$3.75 million. The purchase was financed using available cash on hand and additional bank financing of \$3.2 million (see "**See Review of Liabilities and Shareholders' Equity**"). Previous to the purchase, the Company was operating the facility under a lease agreement that would have expired in June 2023.

Cash on hand at December 31, 2022 was \$18.5 million compared to \$12.5 million a year ago. See "**Liquidity and Capital Resources**" for sources and uses of cash.

Disclosures in the consolidated financial statements for the year ended December 31, 2022 note that cash included \$0.5 million of restricted cash representing funds held in trust in accordance with the terms of a lease agreement, consistent with 2021.

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>	2022	2021
Debt	\$ 39,812	\$ 43,796
Deferred revenue and customer deposits	14,081	12,029
Accounts payable	9,693	8,152
Lease payable - right-of-use assets	10,331	11,221
Deferred income taxes	1,145	970
Financial liability held for trading	-	28
	75,062	76,196
Shareholders' equity	46,651	40,416
	\$ 121,713	\$ 116,612

At December 31, 2022 total debt and lease liabilities outstanding was \$50.1 million compared to \$55.0 million at the end of the prior year. The decrease was mainly due to scheduled principal repayments on debt and leases.

Deferred revenue and customer deposits represent customer registration and rental fees received in advance of when ice and field times are used. At December 31, 2022, customer deposits totaled \$14.1 million compared to \$12.0 million at the end of 2021 and represented amounts paid in advance for surface rentals, sports leagues, and instructional programs.

Debt

During the year ended December 31, 2022, the Company refinanced its bank debt and as at December 31, 2022, total bank debt consists 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. Previously, the Company had entered into an interest rate swap contract to fix the interest rate at 3.52% per annum, payable monthly, on this credit facility, which will mature on June 21, 2023. The Company has also entered into a new forward 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 once the previous interest rate contract matures. At December 31, 2022, the balance outstanding was \$24.9 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 December 31, 2022, the balance outstanding was \$5.2 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 December 31, 2022, the balance outstanding was \$2.2 million;
- 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 December 31, 2022, the balance outstanding was \$2.3 million;
- 5) \$5.3 million loan amortized over 15 years, maturing on September 30, 2027, interest at CDOR plus 2.1% per annum payable monthly. At December 31, 2022, the balance outstanding was \$5.2 million. Subsequent to December 31, 2022, the Company entered into an interest rate swap contract in January 2023 to fix the interest rate at 5.70%. On February 27, 2023, this loan facility was increased by \$3.2 million to help finance the purchase of a sports complex in Libertyville, Illinois as discussed above (see “**See Review of Assets**”); 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.

Share Capital

The total and weighted average number of shares issued and outstanding at December 31, 2022 and December 31, 2021 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 period. 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 year ended December 31, 2021 and 2022. The Company paid \$0.3 million (2021 - \$0.2 million) in directors' fees during 2022.

Financial Instruments

The Company has the following financial instruments:

			2022	
	Accounting classification	Fair value level	Carrying Amount	Fair value
Financial assets not measured at fair value:				
Cash (i)	Amortized cost	2	\$18,532	\$18,532
Accounts receivable (i)	Amortized cost	2	2,184	2,184
Financial assets measured at fair value:				
Investment (iv)	FVOCI ⁽¹⁾	3	350	350
Interest rate swap (iii)	Financial assets at FVTPL ⁽²⁾	2	617	617
Financial liabilities not measured at fair value:				
Accounts payable and accrued liabilities (i)	Amortized cost	2	9,693	9,693
Lease liabilities (ii)	Amortized cost	2	10,331	10,331
Debt	Amortized cost	2	39,812	39,848

			2021	
	Accounting classification	Fair value level	Carrying Amount	Fair value
Financial assets not measured at fair value:				
Cash (i)	Amortized cost	2	\$12,530	\$12,530
Accounts receivable (i)	Amortized cost	2	2,298	2,298
Financial assets measured at fair value:				
Investment (iv)	FVOCI ⁽¹⁾	3	350	350
Financial liabilities measured at fair value:				
Interest rate swap (iii)	Financial liabilities at FVTPL ⁽²⁾	2	28	28
Financial liabilities not measured at fair value:				
Accounts payable and accrued liabilities (i)	Amortized cost	2	8,152	8,152
Lease liabilities (ii)	Amortized cost	2	11,221	11,221
Debt	Amortized cost	2	43,796	43,693

⁽¹⁾ FVOCI - fair value through other comprehensive income

⁽²⁾ FVTPL - fair value through profit or loss

- (i) The carrying values of cash, 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 June 2016 and November 2022, respectively, the Company entered into interest rate swap agreements (seven-year and five-year term) 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 earnings for the year. For the year ended December 31, 2022, a gain of \$0.6 million (2021 - \$0.5 million) was recognized.
- (iv) The carrying value of the investment is considered by management to approximate its fair value.

The Company does not have held-to-maturity investments at December 31, 2022. The Company had no “other comprehensive income or loss” transactions related to financial instruments during the year ended December 31, 2022 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, 2022.

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, 2022. 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, 2022.

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 the 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, such as 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

Debt of \$5.2 million, is subject to variable interest rates. For every 1% change in base market rates, interest expense will change by \$52,000 per annum.

Mitigating factors and strategies:

- The Company has fixed the interest rate on \$34.7 million or 87% of its loans.
- 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 2,297,000 Common Shares, which represents 17.2% 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 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 78% 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