



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

**For the Nine Months Ended September 30, 2024
As of November 12, 2024**

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, 2024 and the consolidated operating results for the nine months ended September 30, 2024 compared to the nine months ended September 30, 2023. This document should be read in conjunction with our unaudited condensed consolidated interim financial statements for the period ended September 30, 2024, the accompanying notes, and our audited consolidated financial statements for the years ended December 31, 2023 and December 31, 2022. 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 ("Operating Earnings")

In the following discussion, we define operating earnings as earnings after general and administrative expenses and before interest, depreciation, foreign currency exchange gain/loss, gain on assets sold, interest rate swap gain/loss and income tax. Operating earnings is not a term that has a specific meaning in accordance with IFRS, and may be calculated differently by other companies. The Company discloses operating earnings 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 Plus and can be viewed at www.sedarplus.ca and our website www.canlansports.com.

The date of this MD&A is November 12, 2024.

Forward Looking Statements

This MD&A may contain information that constitutes "forward-looking" information within the meaning of applicable securities laws. Often, but not always, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects", "is expected", "budgets", "scheduled", "estimates", "forecasts", "predicts", "projects", "intends", "targets", "aims", "anticipates" or "believes" or variations (including negative variations) of such words and phrases or may be identified by statements to the effect that certain actions "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved. Forward-looking information in this MD&A includes, but is not limited to, anticipated benefits of capital and operating expenditures (including energy efficiencies) and expectations of business growth. Forward-looking information is based on the reasonable assumptions, estimates, analyses, beliefs and opinions of management made in light of its experience and perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable at the date that such information is disclosed. Forward-looking information is subject to various known and unknown risks and uncertainties, many of which are beyond the ability of Canlan to control or predict, that may cause Canlan's actual results, performance or achievements to be materially different from those expressed or implied thereby. Material risk factors that could cause actual results to differ materially from the forward-looking information provided herein include those factors identified in Canlan's public disclosure file available at

www.sedarplus.ca and, in particular, the risk factors set out under the heading "Risk Factors" in the Company's MD&A available for review on the Company's profile at www.sedarplus.ca. Such forward-looking information represents management's best judgment based on information currently available. Accordingly, readers are advised not to place undue reliance on forward-looking information. The forward-looking information herein is made as of the date of this MD&A only, and the Company does not assume any obligation to update or revise them to reflect new information, estimates or opinions, future events or results or otherwise, except as required by applicable securities law.

Overview – Three Months ended September 30, 2024

- Total operating revenue of \$20.0 million increased by \$2.7 million or 15.7% compared to a year ago;
- Total operating loss (see "**Non-IFRS Financial Measure**" above) was \$0.7 million compared to a loss of \$3.3 million in 2023; and
- Significant capital projects to enhance customer experience and to expand the Company's activity offerings were completed or close to completion during the quarter. These include the construction of new golf/sports simulators at the Scotia Barn and Canlan Sports York facilities, the renovation of the Canlan Sports York sports bar, and the addition of new soccer pitches at Canlan Sports Libertyville.

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 16 facilities in Canada and the United States containing playing surfaces as outlined below. The Company owns 12 of these facilities, freehold, containing 1.4 million square feet of space situated on 170 acres of land. Of the four facilities not owned on a freehold basis, one building is situated on land that is leased under a long-term lease arrangement, one building is operated under an operating agreement with a municipality, one facility (land and building) is operated under a lease agreement, and one facility is managed on behalf of a municipality for a management fee.

Canlan operates primarily in the sports and recreation industry, with a focus on ice, turf and court sports. In typical years, the Company's 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:

| <u>Canada:</u> | Facilities | Ice Surfaces | Indoor Turf Fields | Courts ^a | Total Playing surfaces |
|------------------|-------------------|---------------------|---------------------------|----------------------------|-------------------------------|
| British Columbia | 4 | 13 | 1 | - | 14 |
| Saskatchewan | 2 | 6 | - | - | 6 |
| Manitoba | 1 | 3 | 1 | - | 4 |
| Ontario | 5 | 20 | - | 7 | 27 |
| | 12 | 42 | 2 | 7 | 51 |
| <u>USA:</u> | | | | | |
| Illinois | 4 | 6 | 3 ^b | 13 | 22 |
| | 16 | 48 | 5 | 20 | 73 |

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 \$3.60 to \$4.40 range during the nine-month period ended September 30, 2024. 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, 2024, 2023 and 2022. This data should be read together with the unaudited condensed consolidated interim financial statements for the periods ended September 30, 2024, 2023 and 2022.

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, | 2024 | 2023 | 2022 |
|------------------------------------------------------------------------|-------------------|-------------------|-------------------|
| Statement of Operations Data: | | | |
| Revenue | \$ 67,992 | \$ 61,534 | \$ 51,585 |
| Expenses ⁽¹⁾ | (51,779) | (48,853) | (40,626) |
| Earnings from ice rink & recreational facilities before the undernoted | 16,213 | 12,681 | 10,959 |
| General & administration expenses | (7,705) | (6,283) | (5,015) |
| Earnings before the undernoted | 8,508 | 6,398 | 5,944 |
| Other gains (expenses): | | | |
| Depreciation | (5,594) | (5,750) | (6,432) |
| Finance expenses | (1,752) | (1,530) | (1,803) |
| Foreign exchange gain | 3 | 5 | 13 |
| Gain (loss) on interest rate swaps | (773) | 1,227 | 541 |
| Gain on sale of assets | 9 | 10 | 79 |
| Gain on early lease termination | - | - | 4,530 |
| Income tax recovery (expense) | 39 | 35 | (634) |
| Net earnings | \$ 440 | \$ 395 | \$ 2,238 |
| Other comprehensive income (loss) | 689 | (76) | 2,241 |
| Total comprehensive income | \$ 1,129 | \$ 319 | \$ 4,479 |
| Basic and fully diluted earnings per share | \$ 0.03 | \$ 0.03 | \$ 0.17 |
| Balance Sheet Data: | | | |
| Cash and cash equivalents | \$ 17,800 | \$ 13,179 | \$ 15,933 |
| Current assets (excluding cash and cash equivalents) | 6,403 | 5,590 | 4,724 |
| Property, plant and equipment - facilities | 94,870 | 94,157 | 96,835 |
| Other assets | 5,146 | 5,639 | 2,362 |
| Total assets | \$ 124,219 | \$ 118,565 | \$ 119,854 |
| Current liabilities, excluding debt | \$ 27,029 | \$ 24,654 | \$ 21,963 |
| Debt | 41,503 | 41,454 | 40,708 |
| Lease liabilities | 7,650 | 5,030 | 11,205 |
| Other long-term liabilities | 1,847 | - | - |
| Interest rate swap | 611 | - | - |
| Deferred tax liabilities | 994 | 1,657 | 1,083 |
| Total liabilities | 79,634 | 72,795 | 74,959 |
| Shareholders' equity | 44,585 | 45,770 | 44,895 |
| Total liabilities and shareholders' equity | \$ 124,219 | \$ 118,565 | \$ 119,854 |
| Dividends declared | \$ 1,200 | \$ 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, 2024 Compared to Three Months Ended September 30, 2023

Total operating revenue of \$20.0 million increased by \$2.7 million or 15.7% compared to 2023. Pricing and volume growth in summer hockey leagues, third-party surface rentals, and tournament activity were key drivers of the increase. This in turn, elevated restaurant and concession traffic, which resulted in increased food and beverage revenue by 11.6%.

Total operating expenses of \$17.9 million decreased by \$0.4 million or 2.4% mainly due to a reduction in repair and maintenance costs due to timing of projects. Maintenance costs incurred during the quarter mainly related to the Company's roof remediation program and projects to improve dressing rooms, playing surfaces and parking lots.

Total G&A expenses of \$2.8 million increased by \$0.6 million or 27.5% mainly due to increased provisions for the Company's long-term incentive compensation plan (LTIP) and retirement compensation for a member of senior management.

After G&A, operating loss was \$0.7 million compared to \$3.3 million in 2023.

Total depreciation expense was \$1.9 million consistent with 2023. Finance costs of \$0.5 million decreased by \$0.1 million. During the three months ended September 30, 2024, the Company recorded a mark-to-market loss of \$1.1 million from a change in the value of interest rate swap contracts (2023 – a gain of \$0.7 million). After recording income tax recoveries of \$1.5 million (2023 – \$1.2 million), net loss was \$2.6 million or \$0.20 loss per share (2023 - \$3.9 million or \$0.29 per share).

In addition, foreign exchange (FX) translation loss related to U.S. subsidiaries was \$0.5 million compared to a gain of \$0.7 million in 2023. Period end FX adjustments of U.S. assets and liabilities are accounted for as other comprehensive income or loss.

Nine Months Ended September 30, 2024 Compared to Nine Months Ended September 30, 2023

Revenue by business segment:

in thousands

| Nine months ended September 30 | 2024 | 2023 |
|---------------------------------------|------------------|------------------|
| Ice and field sales | \$ 54,347 | \$ 48,999 |
| Food and beverage (F&B) | 9,889 | 8,886 |
| Sports store | 725 | 726 |
| Sponsorship | 890 | 912 |
| Space rental | 1,560 | 1,433 |
| Management and consulting fees | 200 | 249 |
| Other | 381 | 329 |
| Total revenue | \$ 67,992 | \$ 61,534 |

Total operating revenue of \$68.0 million increased by \$6.5 million or 10.5% principally due to increased ASHL registrations, higher third-party contract surface rentals, growth in tournament registrations and food and beverage revenue.

Operating expenses include all costs directly related to operations of our recreation properties. Total operating expenses of \$51.8 million increased by \$2.9 million or 6.0% mainly due to increased labour and other variable expenses to service higher customer volumes, increased utilities, and property tax expense.

Total G&A expenses of \$7.7 million increased by \$1.4 million or 22.6% mainly due to increased accounting accruals related to post-employment benefits and the Company's LTIP.

After G&A, operating earnings were \$8.5 million compared to \$6.4 million in 2023.

Total depreciation expense was \$5.6 million compared to \$5.8 million in 2023.

Finance expense, before gain or loss from interest swap contracts, include borrowing costs on term debt, leases, and interest recognized from the accounting of the Company's LTIP. Finance expense (net of interest income) of \$1.8 million increased by \$0.2 million mainly due to term debt and leases drawn in Q4 2023 to finance capital expenditures. During the nine months ended September 30, 2024, the Company also recorded a mark-to-market loss of \$0.8 million from a change in the value of interest rate swap contracts (2023 – a gain of \$1.2 million).

After recording an income tax recovery of \$39,000 (2023 - \$35,000), net earnings was \$0.4 million or \$0.03 per share, consistent with the prior year.

In addition, an FX translation gain of \$0.7 million related to U.S. subsidiaries was recorded compared to an FX loss of \$0.1 million in 2023. 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)

| | 2024 | | | 2023 | | | | 2022 |
|------------------------------------------------------------------------------|-------------------|-------------------|-----------------|----------------|-------------------|----------------|-----------------|-----------------|
| | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 |
| Revenue | \$19,958 | \$21,848 | \$26,186 | \$24,617 | \$17,246 | \$19,811 | \$24,477 | \$22,143 |
| Expenses | (17,887) | (17,556) | (16,336) | (17,918) | (18,330) | (15,505) | (15,018) | (15,103) |
| | 2,071 | 4,292 | 9,850 | 6,699 | (1,084) | 4,306 | 9,459 | 7,040 |
| General & administration expenses | (2,801) | (2,684) | (2,220) | (3,680) | (2,197) | (2,055) | (2,031) | (2,340) |
| Earnings (loss) before the undernoted | (730) | 1,608 | 7,630 | 3,019 | (3,281) | 2,251 | 7,428 | 4,700 |
| Depreciation | (1,858) | (1,878) | (1,858) | (1,763) | (1,908) | (1,912) | (1,930) | (1,947) |
| Finance expense | (510) | (607) | (635) | (665) | (612) | (469) | (449) | (625) |
| Foreign exchange gain (loss) | (1) | 2 | 2 | - | 6 | (1) | - | (2) |
| Gain (loss) on interest rate swaps | (1,075) | (212) | 514 | (1,682) | 700 | 1,107 | (580) | 104 |
| Gain on sale of assets | 9 | - | - | 5 | - | - | 10 | 27 |
| Earnings (loss) before taxes | (4,165) | (1,087) | 5,653 | (1,086) | (5,095) | 976 | 4,479 | 2,257 |
| Income tax recovery (expense) | 1,545 | (91) | (1,415) | 1,126 | 1,243 | (174) | (1,034) | 235 |
| Net earnings (loss) Basic and fully diluted earnings (loss) per share | \$ (2,620) | \$ (1,178) | \$ 4,238 | \$ 40 | \$ (3,852) | \$ 802 | \$ 3,445 | \$ 2,492 |
| | \$ (0.20) | \$ (0.09) | \$ 0.32 | \$ 0.00 | \$ (0.29) | \$ 0.06 | \$ 0.26 | \$ 0.19 |

Liquidity and Capital Resources

Canlan's cash balance as at September 30, 2024 was \$17.8 million compared to \$19.0 million from December 31, 2023. In addition to cash-on-hand, the Company also has access to \$8.0 million of a \$10.0 million revolving credit facility (operating credit facility) and access to \$15.9 million of a \$20.0 million revolving acquisition facility (capital credit facility) (see "**Review of Liabilities and Shareholders' Equity**"). This revolving operating credit facility can be drawn upon at any time to fund working capital if required.

For the nine months ended September 30, 2024, cash from operations, less interest paid on debt and leases was \$6.4 million compared to \$4.0 million a year ago.

In terms of finance activities, \$1.5 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. In addition, \$1.2 million was used to distribute dividends declared during Q4 of 2023 and Q1 and Q2 of 2024.

Investing activities principally related to \$4.3 million invested in capital expenditures during the nine months ended September 30, 2024. Capital projects during period mainly consisted of new dehumidification systems focused on improving ice and air quality, new golf/sports simulator amenities to expand our recreation and entertainment product offerings, renovation of the Libertyville sportsplex to add indoor soccer pitches, new audio/video equipment for dining areas, and a complete refresh of the sports bar at Canlan Sports York.

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

in thousands

| Nine months ended September 30 | 2024 | 2023 |
|---------------------------------------|-------------------|-------------------|
| Cash provided by (used in): | | |
| Operations | \$ 6,400 | \$ 4,023 |
| Financing | (3,369) | (4,877) |
| Investing | (4,353) | (4,489) |
| Foreign currency change | 93 | (10) |
| Net cash flow | <u>\$ (1,229)</u> | <u>\$ (5,353)</u> |

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

in thousands

| Nine months ended September 30 | 2024 | 2023 |
|-----------------------------------------|-----------------|-----------------|
| Operating earnings ¹ | \$ 8,508 | \$ 6,398 |
| Net changes in non-cash working capital | (763) | (847) |
| Net interest paid | (1,721) | (1,511) |
| Increase in other long-term liabilities | 901 | - |
| Income tax expense - current | (576) | (4) |
| Foreign currency | 51 | (13) |
| Cash flow from operations | <u>\$ 6,400</u> | <u>\$ 4,023</u> |

¹Non-IFRS Financial Measure ("Operating Earnings") – see explanation on page 1.

Review of Assets

The table below summarizes the Company's asset base:

| <i>in thousands</i> | September 30, 2024 | December 31, 2023 |
|---------------------------------------------|---------------------------|-------------------|
| Property, plant and equipment - facilities | \$ 94,870 | \$ 93,328 |
| Cash and cash equivalents | 17,800 | 19,029 |
| Accounts receivable | 3,505 | 2,991 |
| Inventory | 549 | 624 |
| Prepaid and other expenses and other assets | 3,254 | 2,278 |
| Deferred income taxes | 4,241 | 3,587 |
| Interest rate swaps | - | 162 |
| | \$ 124,219 | \$ 121,999 |

At September 30, 2024, total properties of \$94.9 million increased by \$1.5 million mainly due to capital expenditures of \$4.3 million offset by scheduled depreciation during the nine months ended September 30, 2024. In addition, the Company completed a four-year lease renewal with a five-year extension option, of its ice-rink facility in Langley, B.C, which resulted in an addition of \$2.0 million in property, plant and equipment, in accordance with IFRS 16.

Cash on hand at September 30, 2024 was \$17.8 million compared to \$19.0 million at December 31, 2023. 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, 2024 | December 31, 2023 |
|------------------------------------------|---------------------------|-------------------|
| Debt | \$ 41,503 | \$ 42,948 |
| Deferred revenue and customer deposits | 13,894 | 14,425 |
| Accounts payable and accrued liabilities | 13,135 | 11,742 |
| Lease liabilities | 7,650 | 6,327 |
| Other long-term liabilities | 1,847 | 946 |
| Deferred tax liabilities | 994 | 955 |
| Interest rate swap | 611 | - |
| | 79,634 | 77,343 |
| Shareholders' equity | 44,585 | 44,656 |
| | \$ 124,219 | \$ 121,999 |

At September 30, 2024, total debt of \$41.5 million decreased by \$1.4 million mainly due to scheduled principal repayments. Total lease liabilities outstanding of \$7.7 million increased by \$1.3 million mainly due to the renewal of the lease of Canlan Sports Langley (see "**Review of Assets**") resulted from a renewal of lease term offset by scheduled lease payments.

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, 2024, customer deposits totaled \$13.9 million compared to \$14.4 million at the end of 2023.

Debt

As at September 30, 2024, 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 Canadian Overnight Repo Rate Average (CORRA) rate plus 1.85% payable monthly. The Company has entered into an interest rate swap contract, maturing on November 21, 2027, to fix the interest rate at 5.34% per annum payable monthly. At September 30, 2024, the balance outstanding was \$23.2 million;
- 2) \$5.2 million non-revolving loan amortized over 25 years, maturing on November 30, 2027, interest at CORRA 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, 2024, the balance outstanding was \$4.8 million;
- 3) \$10.0 million revolving loan amortized over 25 years, maturing on November 30, 2027, interest at CORRA 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, 2024, the balance outstanding was \$2.0 million;
- 4) \$20.0 million revolving capital expenditure loan amortized over 25 years, maturing on November 30, 2027. At September 30, 2024, the balance outstanding on this credit facility was \$4.1 million. Of this total, \$2.2 million accrues interest at CORRA 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. The remaining \$1.9 million outstanding at September 30, 2024, accrues interest at Prime plus 0.25% per annum payable monthly;
- 5) \$8.5 million loan amortized over 15 years, maturing on September 30, 2027, interest at CORRA plus 2.1% per annum payable monthly. 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, 2024, the balance outstanding was \$7.5 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, 2024.

Share Capital

The total and weighted average number of shares issued and outstanding at September 30, 2024 and December 31, 2023 was 13,336,999 ⁽¹⁾.

⁽¹⁾ Corrected from 13,337,448 common shares previously reported in error.

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.

An independent director of the Company is the board-chair of a vendor from which the Company purchases services in the normal course of business. There were \$6,000 in purchases from this vendor for the nine months ended September 30, 2024 (2023 – \$7,000).

During the nine months ended September 30, 2024 and 2023, 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 (included in other assets) <i>(iv)</i> | FVOCI ⁽¹⁾ | 3 |
| Interest rate swaps <i>(iii)</i> | Financial assets at FVTPL | 2 |
| Financial liabilities not measured at fair value: | | |
| Accounts payable and accrued liabilities <i>(i)</i> | Amortized cost | 2 |
| Debt | Amortized cost | 2 |
| Financial liabilities measured at fair value: | | |
| Other long-term liabilities <i>(ii)</i> | Financial liability at FVTPL ⁽²⁾ | 2 |
| Interest rate swaps <i>(iii)</i> | Financial liability at FVTPL ⁽²⁾ | 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 other long-term liabilities is considered by management to approximate their fair values.

(iii) In November 2022 and January 2023, respectively, the Company entered into interest rate swap agreements (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 net earnings (loss) for the period. For the nine months ended September 30, 2024, a loss of \$0.8 million (2023 – a gain of \$1.2 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, 2024 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, 2024.

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 period ended September 30, 2024. 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, 2024.

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 are summarized below.

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 and to increase its buildings' resilience against wind and wet climate conditions, the Company has already implemented and will continue to implement the following:

- Invest in energy efficient equipment and fixtures to cool, heat and light sports facilities and closely monitor and maintain the energy efficiency of the equipment throughout its life-cycle.
- Proactively refurbish roof structures.
- Transition its fleet primary ice re-surfacers from gas powered to electric vehicles.
- 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 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 and continued monitoring of this particular risk.

Interest Rate Risk

Debt of \$1.9 million is subject to variable interest rates. For every 1% change in base market rates, interest expense will change by \$19,000 per annum.

Mitigating factors and strategies:

- The Company has fixed the interest rate on \$39.7 million or 95% 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 2,308,500 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 material 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 foot 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 76% 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