



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

**For the Years Ended December 31, 2023 and 2022
As of March 20, 2024**

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, 2023 and 2022. This document should be read in conjunction with our audited consolidated financial statements for the years ended December 31, 2023 and 2022 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 ("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 on assets sold, early lease termination and interest rate swap, and income tax. Operating earnings 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 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 20, 2024.

Forward Looking Information

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 press release 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 – Year Ended December 31, 2023

- Total operating revenue of \$86.1 million increased by \$12.4 million or 16.8% compared to a year ago;
- Food and beverage revenue increased by \$4.0 million or 48.5% compared to 2022;
- Earnings from facility operations of \$19.4 million before G&A expenses increased by \$1.4 million or 7.7% despite additional roof remediation costs of \$3.0 million compared to 2022;
- An option to purchase Canlan Libertyville Sportsplex was exercised. This is a recreation facility in Libertyville Illinois that had been operated under a lease agreement. The purchase establishes the Company's long-term sportsplex operations in that market with indoor field/court facilities in both Lake Barrington and Libertyville, Illinois;
- The Company accelerated its roof remediation program incurring approximately \$5.3 million (2022 - \$2.3 million) in roof remediation mainly at the Canlan Sports Scarborough and Canlan Sports Etobicoke locations. The renewal should provide long-term roof protection and reduce future roof repair and maintenance expenses at both facilities; and
- The Company invested approximately \$5.8 million in capital projects mainly to replace restaurant audio/video equipment and install new refrigeration and HVAC equipment at various locations to continue its program of reducing energy consumption and improving interior air quality.

Overview of the Company

Canlan is a leading operator of ice rink and multi-purpose recreational facilities. The Company's head office is located in its Burnaby, B.C. sports complex and it maintains a second corporate office at its Canlan Sports York location in Toronto, Ontario.

As at the date of this MD&A, the Company owns, leases or manages a network of 17 facilities in Canada and the United States containing playing surfaces as outlined below. The Company owns 12 of these facilities containing 1.4 million square feet of space situated on 170 acres of land. Of the five facilities not owned fee-simple, one facility is operated under a long-term land lease arrangement, one facility under an operating agreement with a municipality and one facility under a lease agreement. Canlan also manages two facilities on behalf of municipalities.

Operations are primarily in the sports and recreation industry, with a focus on ice, turf and court sports. In typical years, the 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>		Ice	Indoor		Total
	Facilities	Surfaces	Turf Fields	Courts ^a	Playing surfaces
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
<u>USA:</u>					
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 \$3.30 to \$5.30 range during 2023. The Company has not issued any shares from treasury since November 2004.

The Company derives revenue from six primary sources:

1. Ice and field sales

Revenue from ice, field, court rentals, and internal programming.

2. Food and beverage

Sales from our licensed restaurants and concession operations within our facilities.

3. Sports stores

Sales and rental of sports equipment, apparel, and skate sharpening services.

4. Management and consulting

Fees from managing facilities owned by third parties and consulting engagements.

5. Sponsorship

Revenue from sponsorship and advertising sales.

6. Space rental

Rental of space within our facilities.

Selected Financial Information

The following selected consolidated financial information as at December 31, 2023, 2022, and 2021 and each of the quarters and years then ended has been derived from our 2023 and 2022 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>	2023	2022	2023	2022	2021
Statement of Operations Data:					
Revenue	\$ 24,617	\$ 22,143	\$ 86,151	\$ 73,728	\$ 40,393
Other income - Government subsidy	-	-	-	-	6,537
Expenses ⁽¹⁾	(17,918)	(15,103)	(66,771)	(55,729)	(35,353)
Earnings from ice rink & recreational facilities before the undernoted	6,699	7,040	19,380	17,999	11,577
General & administration expenses	(3,680)	(2,340)	(9,963)	(7,355)	(5,779)
Earnings before the undernoted	3,019	4,700	9,417	10,644	5,798
Other gain (expenses):					
Depreciation	(1,763)	(1,947)	(7,513)	(8,379)	(7,801)
Finance expenses	(665)	(625)	(2,195)	(2,428)	(2,585)
Foreign exchange gain (loss)	-	(2)	5	11	19
Gain (loss) on interest rate swap	(1,682)	104	(455)	645	513
Gain on early lease termination	-	-	-	4,530	-
Gain on sale of assets	5	27	15	106	1,510
Income tax recovery (expense)	1,126	235	1,161	(399)	1,454
Net earnings (loss) for the year	\$ 40	\$ 2,492	\$ 435	\$ 4,730	\$ (1,092)
Other comprehensive income (loss)	(754)	(336)	(830)	1,905	(200)
Total comprehensive income (loss)	\$ (714)	\$ 2,156	\$ (395)	\$ 6,635	\$ (1,292)
Basic and fully diluted earnings (loss) per share	\$ 0.00	\$ 0.19	\$ 0.03	\$ 0.35	\$ (0.08)
Balance Sheet Data:					
Cash and cash equivalents			\$ 19,029	\$ 18,532	\$ 12,530
Current assets (excluding cash and cash equivalents)			4,871	4,264	3,576
Property, plant and equipment - facilities			93,328	95,523	97,432
Investment			350	350	350
Other assets			4,259	2,838	2,724
Non-current interest rate swap			162	206	-
Total assets			\$ 121,999	\$ 121,713	\$ 116,612
Current liabilities, excluding debt			\$ 26,167	\$ 23,774	\$ 20,181
Debt			42,948	39,812	43,796
Lease liabilities			6,327	10,331	11,221
Deferred tax liabilities			955	1,145	970
Other long-term liabilities			946	-	-
Interest rate swap			-	-	28
Total liabilities			77,343	75,062	76,196
Shareholders' equity			44,656	46,651	40,416
Total liabilities and shareholders' equity			\$ 121,999	\$ 121,713	\$ 116,612
Dividends declared			\$ 1,600	\$ 400	\$ -

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

Competitive Strengths

The Company believes that it has the following competitive strengths:

- **The Team.** Canlan typically employs approximately 1,000 full and part-time employees in Canada and the USA. Through training and internal communications, Canlan's 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.
- **Internal Programs.** In addition to renting ice, turf and court times to third-party user groups, Canlan operates in-house branded sports leagues, instructional camps and classes, and tournaments. The Company operates the largest adult recreational hockey league in North America called the Adult Safe Hockey League (ASHL), that offers superior services and competition in a fun environment for over 60,000 players. Canlan also operates its own branded adult and youth soccer leagues, youth hockey leagues and a tournament division called Canlan Classic Tournaments (CCT). CCT hosts hockey tournaments in which more than 2,000 teams participate on an annual basis.
- **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 2023 Operations

Revenue

Total operating revenue of \$86.1 million increased by \$12.4 million or 16.8% as sales from virtually all ice and turf product offerings increased compared to 2022. In particular, revenue from third-party surface rentals, ASHL, and tournament registrations increased significantly due to focused marketing efforts, elevated demand for ice sports participation in certain markets, and 100% up-time for all surfaces. In January of the prior year, Ontario facilities experienced pandemic-related closures for several weeks.

The higher surface utilization and the ability to hire sufficient staff members also resulted in an increase of F&B revenue by \$4.0 million or 48.5%, and sports store revenue by \$0.2 million or 30.6% compared to 2022.

Revenue from sponsorship, space rental, vending, and facility management fees of \$4.0 million increased by \$0.3 million or 6.8% compared to 2022.

The Company recorded the following revenue by quarter:

<i>in thousands</i>	2023		2022	
	Revenue	% of total	Revenue	% of total
Q1	\$ 24,477	28	\$ 18,948	26
Q2	19,811	23	17,073	23
Q3	17,246	20	15,564	21
Q4	24,617	29	22,143	30
	\$ 86,151	100	\$ 73,728	100

The Company's operations consist of full service ice rink and recreational facilities which constitute a single operating segment.

(a) Ice rink and recreational facilities revenue:

<i>in thousands</i>	2023		2022	
	Sales	% of total	Sales	% of total
Ice and Field Sales	\$ 68,704	80	\$ 60,819	83
Food and Beverage	12,385	14	8,342	11
Sports Store	1,022	1	783	1
Sponsorship	1,222	2	1,201	2
Space Rental	1,942	2	1,796	2
Management & Consulting Fees	318	-	268	-
Other	558	1	519	1
	\$ 86,151	100	\$ 73,728	100

(b) Geographic:

<i>in thousands</i>	2023		2022	
	Sales	% of total	Sales	% of total
Canada:				
British Columbia	\$ 20,403	24	\$ 17,448	24
Saskatchewan	7,525	9	6,710	9
Manitoba	4,795	5	4,153	5
Ontario	40,299	47	33,607	46
	73,022	85	61,918	84
USA	13,129	15	11,810	16
	\$ 86,151	100	\$ 73,728	100

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

<i>in thousands</i>	2023		2022	
	Revenue	% of total	Revenue	% of total
Adult hockey leagues	\$ 26,391	38	\$ 24,122	40
3rd party contract users	21,427	31	18,532	30
Camps, hockey & skating schools	6,249	9	5,552	9
Youth hockey leagues	2,588	4	2,369	4
Public programs & spot rentals	4,018	6	3,449	6
Tournaments	4,156	6	3,191	5
Soccer field rentals and leagues	3,055	5	2,871	5
Other	820	1	733	1
	\$ 68,704	100	\$ 60,819	100

Operating Expenses

Facility operating expenses of \$66.8 million increased by \$11.0 million or 19.8% compared to 2022 due to higher operating expenses directly related to servicing increased customer volumes and higher repair and maintenance costs. In particular, maintenance expenses of ice plants, ventilation equipment, and dressing rooms increased compared to 2022. In addition, the Company invested \$5.3 million into its roof remediation program in 2023 compared to \$2.3 million incurred a year ago. The Company's roof remediation program that began in 2018, is a proactive multi-year plan to renew roof structures of specific sports complexes to enhance weather resistance and structural protection.

Increases in operating expenses with respect to wages and cost of goods sold were commensurate with the increase of business activity. Utilities expenses also increased mainly due to higher market prices of energy; however, the effect of pricing was moderated as Canlan entered into new energy contracts in the prior year and continued to make investments in new equipment and technologies that help reduce consumption.

Facility operating expenses by quarter were as follows:

<i>in thousands</i>	2023		2022	
	Costs	% of total	Costs	% of total
Q1	\$ 15,018	23	\$ 12,485	22
Q2	15,505	23	13,362	24
Q3	18,330	27	14,779	27
Q4	17,918	27	15,103	27
	\$ 66,771	100	\$ 55,729	100

Before G&A expenses, earnings from facility operations of \$19.4 million increased by \$1.4 million or 7.7% compared to 2022.

Total G&A expenses of \$10.0 million increased by \$2.6 million or 35.4% from 2022 mainly due increased labor and IT-related costs that resulted from a combination of factors:

- 1) Adding talent and technologies to execute organic growth and growth from new product development. In addition, resources were added to augment support to facility operations in areas of recruiting, training, and customer intelligence through data-mining for sale and marketing staff;
- 2) The accrual of compensation expense related to the Company's new long-term incentive plan for eligible directors and members of management; and
- 3) The accrual of retirement compensation related to one executive member who retired at the end of 2023.

After G&A, operating earnings¹ were \$9.4 million compared to \$10.6 million in 2022.

Other Gains and Expenses

Total depreciation expense was \$7.5 million compared to \$8.4 million 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.

Net finance costs of \$2.7 million increased by \$0.9 million mainly due to valuation fluctuations in accounting for interest rate swap contracts that are used to fix the Company's interest rate on bank debt. Finance income and expenses consist of interest income earned on cash deposits, interest expense on bank debt and lease liabilities, interest on other long-term liabilities (see "**Review of Liabilities and Shareholders' Equity**"), amortization of deferred financing costs, and mark-to-market gains or losses on interest rate swap contracts (see "**Financial Instruments**" below for further details).

A breakdown of net finance expense is as follows:

<i>in thousands</i>	2023	2022
Mortgage interest	\$ 2,039	\$ 1,647
Interest income	(593)	(208)
Lease liabilities interest	373	507
Mark-to-market (gain) loss on interest rate swap	455	(645)
Amortization of deferred financing costs and other	376	482
	\$ 2,650	\$ 1,783

Net Earnings

For the year ended December 31, 2023, the Company recorded a net income tax recovery of \$1.2 million. This net recovery reflects a current income tax expense of \$0.3 million related to 2023 taxable earnings and the recognition of future income tax benefits related to tax losses carried forward that can be used to offset taxable income derived from U.S. operations in future periods. After recording an income tax recovery of \$1.2 million (2022 – expense of \$0.4 million), net earnings were \$0.4 million or \$0.03 per share compared to \$4.7 million or \$0.35 per share in the prior year. In 2022, an extraordinary gain of \$4.5 million related to compensation received for the early-termination of a lease on a sports complex was realized.

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

Foreign Currency Translation and Other Comprehensive loss

Other comprehensive loss (OCL) was \$0.8 million in 2023 compared to other comprehensive income (OCI) of \$1.9 million in 2022. 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 2023

Total operating revenue of \$24.6 million increased by \$2.5 million or 11.2% compared to 2022 mainly due to increased revenue from third-party ice contracts, ASHL and F&B operations.

Facility operating expenses of \$17.9 million increased by \$2.8 million or 18.6% from the prior year mainly due to higher costs required to service higher volumes and the completion of significant maintenance projects including \$1.8 million (2022 - \$0.7 million) of roof remediation expenses.

Total G&A expenses of \$3.7 million increased by \$1.3 million or 57.3% mainly due to increased labour expenses that resulted from a combination factors as discussed above (see "**Review of Fiscal 2023 Operations**").

After G&A expenses, operating earnings¹ of \$3.0 million decreased by \$1.7 million or 35.8% for the quarter compared to 2022.

Total depreciation expense, net finance expenses, gain on sale of assets, and loss on interest rate swap contracts was \$4.1 million compared to \$2.4 million in 2022 mainly due to a \$1.7 million accounting charge recognized on the change in valuation of interest rate swap contracts during the quarter compared to a valuation gain of \$0.1 million in 2022.

After recording an income tax recovery of \$1.1 million (2022 – \$0.2 million), net earnings for the quarter were \$40,000 (< \$0.01 per share) compared to \$2.5 million (\$0.19 per share) a year ago.

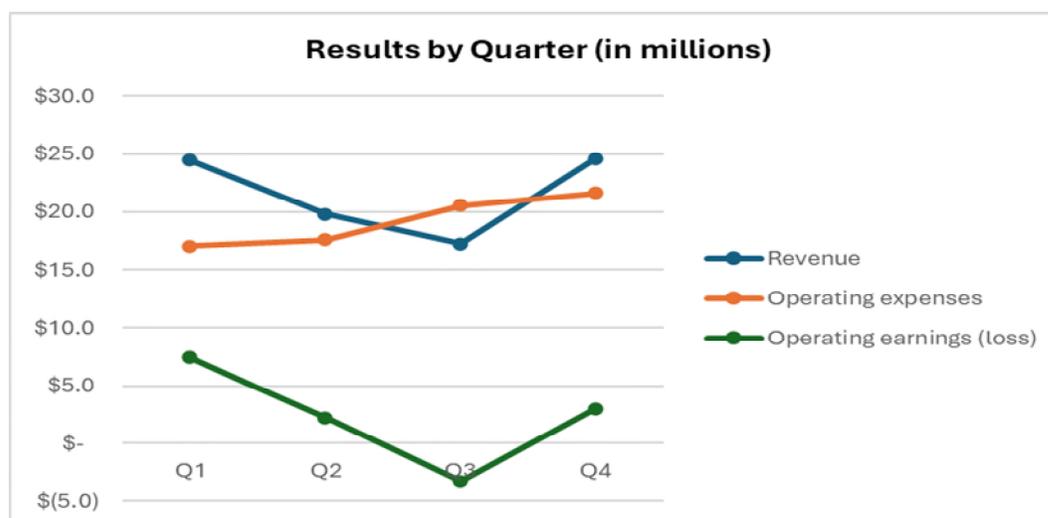
¹ Non-IFRS Financial Measure ("Operating Earnings") – see explanation on page 1.

Operating Earnings¹

The Company's annual operating earnings¹ are predominantly earned in the first and fourth fiscal quarters due to the seasonal nature of ice sports and indoor soccer, plus major maintenance projects are usually completed during the slower spring and summer months.

Operating earnings¹ by quarter for 2023 and 2022 are as follows:

<i>in thousands</i>		2023		2022
Q1	\$	7,428	\$	4,854
Q2		2,251		1,949
Q3		(3,281)		(859)
Q4		3,019		4,700
	\$	9,417	\$	10,644



¹ Non-IFRS Financial Measure (“Operating Earnings”) – see explanation on page 1. See reconciliation to net earnings (loss) on page 11, and to cash flow from operations on page 14.

The following table is a summary of operations that reconciles operating earnings¹ to net earnings (loss):

Summary of Operations			
For the years ended December 31			
<i>in thousands</i>	2023	2022	2021
Revenue			
Ice rink and recreational facilities	\$ 86,151	\$ 73,728	\$ 40,393
Other income - government subsidy	-	-	6,537
Expenses	66,771	55,729	35,353
	19,380	17,999	11,577
General & administration expenses	9,963	7,355	5,779
Earnings before the undernoted			
(Operating earnings ¹)	9,417	10,644	5,798
Other gains (expenses)			
Depreciation	(7,513)	(8,379)	(7,801)
Gain on sale of assets	15	106	1,510
Foreign exchange gain	5	11	19
Gain on early lease termination	-	4,530	-
	(7,493)	(3,732)	(6,272)
Finance income (expenses)			
Finance expense	(2,788)	(2,636)	(2,625)
Finance income	593	208	40
Gain (loss) on interest rate swap	(455)	645	513
	(2,650)	(1,783)	(2,072)
Earnings (loss) before taxes	(726)	5,129	(2,546)
Income tax expense (recovery)			
Current	334	595	(2,050)
Deferred	(1,495)	(196)	596
	(1,161)	399	(1,454)
Net earnings (loss) for the year	435	4,730	(1,092)
Other comprehensive income (loss):			
<i>Items that may be reclassified subsequently to net earnings (loss):</i>			
Foreign currency translation differences	(830)	1,905	(200)
Total comprehensive income (loss)	\$ (395)	\$ 6,635	\$ (1,292)

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

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>	2023				Total
	Q1	Q2	Q3	Q4	
Revenue	\$ 24,477	\$ 19,811	\$ 17,246	\$ 24,617	\$ 86,151
Expenses	(15,018)	(15,505)	(18,330)	(17,918)	(66,771)
	9,459	4,306	(1,084)	6,699	19,380
General & administration expenses	(2,031)	(2,055)	(2,197)	(3,680)	(9,963)
Earnings (loss) before the undernoted	7,428	2,251	(3,281)	3,019	9,417
Depreciation	(1,930)	(1,912)	(1,908)	(1,763)	(7,513)
Finance expense	(449)	(469)	(612)	(665)	(2,195)
Foreign exchange gain (loss)	-	(1)	6	-	5
Gain (loss) on interest rate swap	(580)	1,107	700	(1,682)	(455)
Gain on sale of assets	10	-	-	5	15
Earnings (loss) before taxes	4,479	976	(5,095)	(1,086)	(726)
Income taxes	(1,034)	(174)	1,243	1,126	1,161
Net earnings (loss) for the year	\$ 3,445	\$ 802	\$ (3,852)	\$ 40	\$ 435
Basic and fully diluted earnings (loss) per share	\$ 0.26	\$ 0.06	\$ (0.29)	\$ 0.00	\$ 0.03

<i>in thousands</i>	2022				Total
	Q1	Q2	Q3	Q4	
Revenue	\$ 18,948	\$ 17,073	\$ 15,564	\$ 22,143	\$ 73,728
Expenses	(12,485)	(13,362)	(14,779)	(15,103)	(55,729)
	6,463	3,711	785	7,040	17,999
General & administration expenses	(1,609)	(1,762)	(1,644)	(2,340)	(7,355)
Earnings (loss) before the undernoted	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
Earnings (loss) before taxes	2,664	(374)	582	2,257	5,129
Income taxes	(547)	131	(218)	235	(399)
Net earnings (loss) for the year	\$ 2,117	\$ (243)	\$ 364	\$ 2,492	\$ 4,730
Basic and fully diluted earnings (loss) per share	\$ 0.16	\$ (0.02)	\$ 0.03	\$ 0.19	\$ 0.35

Liquidity and Capital Resources

Canlan's cash and cash equivalents balance as at December 31, 2023 was \$19.0 million compared to \$18.5 million at the end of the prior year. In addition to cash-on-hand, the Company also has access to \$7.9 million of a \$10.0 million revolving credit facility (operating credit facility) that forms part of its bank term debt package (see "**Review of Liabilities and Shareholders' Equity**").

Cash provided by operations, less interest paid on debt and leases was \$9.3 million compared to \$10.6 million a year ago.

In terms of finance activities, net cash of \$3.1 million was used to reduce term debt and lease liabilities, and a further \$4.6 million was used to repay a lease liability upon exercise of an option to purchase a sports complex in Libertyville, Illinois. During the year, a total of \$5.2 million of debt was drawn to finance capital expenditures and to exercise the purchase option. The Company also continued its dividend policy in 2023 and \$1.6 million was used to pay dividends on common shares.

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, 2023 approximately \$4.2 million (2022 - \$2.3 million) of the line has been drawn for refrigeration and building equipment so \$15.8 million remains available for investment in capital expenditures.

In terms of investing activities, cash of \$4.2 million was used for capital expenditures. During the year, capital expenditures comprised mainly of new refrigeration and dehumidification equipment, HVAC systems, and new audio-video components in various facilities. In 2022, \$3.7 million of cash was used for capital expenditures.

Summarized Statement of Cash Flows:

<i>in thousands</i>	2023	2022
Cash inflows and (outflows) by activity		
Operating activities	\$ 9,182	\$ 10,849
Financing activities	(4,063)	(1,450)
Investing activities	(4,622)	(3,397)
	497	6,002
Cash, beginning of year	18,532	12,530
Cash and cash equivalents, end of year	\$ 19,029	\$ 18,532

The following table provides a reconciliation of operating earnings¹ to cash flow from operations and the change in cash and cash equivalents position for the last two years:

<i>in thousands</i>	2023		2022	
Operating earnings ¹	\$	9,417	\$	10,644
Net change in non-cash working capital		1,502		2,644
Net interest paid		(2,145)		(2,290)
Other long-term liabilities		946		-
Income tax expense - current		(334)		(595)
Foreign exchange		(77)		(132)
Reduction on obligations under lease liabilities		-		306
Cash flow from operations		9,309		10,577
Add (deduct):				
Principal repayments of debt		(1,925)		(4,121)
Increase in principal of debt		5,200		-
Expenditures on recreational facilities and other assets		(4,637)		(3,696)
Principal repayments on obligations under lease liabilities		(976)		(1,777)
Financing fee		(190)		-
Repayment of lease liability upon exercise of purchase option		(4,572)		-
Net proceeds on early lease termination		-		4,448
Payment of dividends on common shares		(1,600)		-
Net proceeds on sale of assets		15		299
Effect of changes in foreign currency rates on cash and cash equivalents		(127)		272
Increase in cash and cash equivalents	\$	497	\$	6,002

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>	2024	2025	2026	2027	2028	Thereafter	Total
Accounts payable and accrued liabilities	\$ 11,742	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,742
Other long-term liabilities	\$ -	\$ -	\$ 946	\$ -	\$ -	\$ -	\$ 946
Debt:							
Mortgage principal and interest	\$ 4,424	\$ 4,302	\$ 4,183	\$ 38,809	\$ -	\$ -	\$ 51,718
Lease liabilities, including interest	1,306	925	826	669	669	5,526	9,921
	5,730	5,227	5,009	39,478	669	5,526	61,639
	\$ 17,472	\$ 5,227	\$ 5,955	\$ 39,478	\$ 669	\$ 5,526	\$ 74,327

¹ Non-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>	2023	2022
Property, plant and equipment - facilities	\$ 93,328	\$ 95,523
Cash and cash equivalents	19,029	18,532
Accounts receivable	2,991	2,184
Inventory	624	607
Prepaid and other expenses and other assets	1,928	1,618
Investment	350	350
Deferred tax assets	3,587	2,282
Interest rate swap	162	617
	<u>\$ 121,999</u>	<u>\$ 121,713</u>

At December 31, 2023, total properties of \$93.3 million decreased by \$2.2 million mainly due to scheduled depreciation offset by \$5.8 million of capital expenditures during the year.

On February 28, 2023, the Company exercised its option to purchase a sports complex in Libertyville, Illinois for \$4.6 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, this asset was already included in the properties balance as the Company was operating the facility under a lease agreement that would have expired in June 2023.

Cash-on-hand at December 31, 2023 was \$19.0 million compared to \$18.5 million a year ago. See “**Liquidity and Capital Resources**” for sources and uses of cash.

Deferred income tax assets of \$3.6 million increased by \$1.3 million mainly due to the recognition of future tax benefits from tax losses carried forward that can be used to offset future taxable income derived from U.S. operations.

Disclosures in the consolidated financial statements for the year ended December 31, 2023 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 2022.

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>	2023	2022
Debt	\$ 42,948	\$ 39,812
Deferred revenue and customer deposits	14,425	14,081
Accounts payable and accrued liabilities	11,742	9,693
Lease liabilities	6,327	10,331
Deferred tax liabilities	955	1,145
Other long-term liabilities	946	-
	<u>77,343</u>	<u>75,062</u>
Shareholders' equity	44,656	46,651
	<u>\$ 121,999</u>	<u>\$ 121,713</u>

At December 31, 2023, bank debt of \$42.9 million increased by \$3.1 million compared to the balance at December 31, 2022. The increase represents new bank debt drawn to help finance capital expenditures and the exercise of a purchase option on a sports complex (see “**See Review of Assets**” above), net of scheduled debt repayments.

Total lease liabilities of \$6.3 million decreased by \$4.0 million principally due to scheduled lease payments and the repayment of a lease liability upon exercise of purchase option (see “**See Review of Assets**” above), offset by new leases on capital equipment purchased.

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, 2023, customer deposits totaled \$14.4 million compared to \$14.1 million at the end of 2022 and represented amounts paid in advance for surface rentals, sports leagues, and instructional programs.

Other long-term liabilities represents a provision for the Company's long-term incentive compensation plan for eligible directors and employees.

Debt

As at December 31, 2023, 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. The Company entered into an interest rate swap contract with a term from June 21, 2023 to November 21, 2027, to fix the interest rate at 5.34% per annum payable monthly. At December 31, 2023, the balance outstanding was \$23.9 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, 2023, the balance outstanding was \$5.0 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, 2023, the balance outstanding was \$2.1 million;
- 4) \$20.0 million revolving capital expenditure loan amortized over 25 years, maturing on November 30, 2027. At December 31, 2023, the balance outstanding on this facility was \$4.2 million. Of this total, \$2.2 million accrues 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. The remaining \$2.0 million outstanding at December 31, 2023, 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 CDOR plus 2.1% per annum payable monthly. In February 2023, this loan facility was increased by \$3.2 million to finance the purchase of a sports complex. During 2023, the Company entered into an interest rate swap contract, maturing on September 29, 2027 to fix the interest rate at 5.70% per annum payable monthly. At December 31, 2023, the balance outstanding was \$7.9 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.

Share Capital

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

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

Transactions with Related Parties

Canlan's controlling shareholder, Bartrac Investments Ltd., owns approximately 10.1 million shares of the Company, or 75.5% of the outstanding shares. Bartrac's ownership position in TSX: ICE has remained unchanged since November 2004.

The Company did not record any related party transactions with Bartrac during the 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 \$7,000 in purchases from this vendor for the year ended December 31, 2023 (2022 – nil). The Company paid \$0.3 million (2022 - \$0.3 million) in directors' fees during 2023.

Financial Instruments

The Company has the following financial instruments:

				2023
	Accounting classification	Fair value level	Carrying Amount	Fair value
Financial assets not measured at fair value:				
Cash and cash equivalents (i)	Amortized cost	1	\$19,029	\$19,029
Accounts receivable (i)	Amortized cost	2	2,991	2,991
Financial assets measured at fair value:				
Investment (iv)	FVOCI	3	350	350
Interest rate swap (iii)	Financial assets at FVTPL	2	162	162
Financial liabilities not measured at fair value:				
Accounts payable and accrued liabilities (i)	Amortized cost	2	11,742	11,742
Debt	Amortized cost	2	42,948	43,123
Financial liabilities measured at fair value:				
Other long-term liabilities (ii)	Financial liability at FVTPL	2	946	946

				2022
	Accounting classification	Fair value level	Carrying Amount	Fair value
Financial assets not measured at fair value:				
Cash (i)	Amortized cost	1	\$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
Debt	Amortized cost	2	39,812	39,848

⁽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 value of other long-term liabilities is considered by management to approximate its fair value.

- (iii) In November 2022 and January 2023, respectively, the Company entered into interest rate swap agreements (five-year terms) to fix the interest rate on certain of its debt. The fair value of these derivative instruments have been presented as an interest rate swap on the statement of financial position. Changes in fair value of the instruments are recognized in net earnings for the period. For the year ended December 31, 2023, a loss of \$0.5 million (2022 – a gain of \$0.6 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, 2023. The Company had no “other comprehensive income or loss” transactions related to financial instruments during the year ended December 31, 2023 and no opening or closing balances for accumulated other comprehensive income or loss related to financial instruments.

Disclosure Controls and Procedures

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

Based on current securities legislation in Canada, our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are required to certify that they have assessed the effectiveness of our disclosure controls and procedures as at December 31, 2023.

Our management has evaluated, under the supervision and with the participation of our CEO and CFO, the design and effectiveness of the Company’s disclosure controls and procedures as at and for the year ended December 31, 2023. Management has concluded that these disclosure controls and procedures, as defined in National Instrument 52-109 – Certification of Disclosure in Issuers Annual and Interim Filings (NI 52-109), are adequate and effective and that material information relating to the Company was made known to them and reported within the time periods specified under applicable securities legislation.

Our management, under the supervision of our CEO and CFO, has also designed and evaluated the effectiveness of the Company’s internal controls over financial reporting (ICFR) using the Internal Control – Integrated Framework as published by the Committee of Sponsoring Organization of the Treadway Commission (2013 Framework) (COSO) Framework. Based on our evaluation, management has concluded that ICFR, as defined in NI 52-109 and using the COSO integrated framework are effective as of December 31, 2023.

Risk Factors

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

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

COVID-19 and other Pandemic or Epidemic Diseases

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

Mitigating factors and strategies:

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

Leverage and Ability to Service Indebtedness

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

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

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

indebtedness. The Company can provide no assurances that it can secure any further credit facilities or that the terms of any such credit facilities will be favourable.

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

Mitigating factors and strategies:

- The Company manages its capital with the objectives of maintaining a financial position suitable for servicing debt in accordance with repayment schedules, complying with debt covenants, and supporting our growth strategies.
- The Company maintains good relationships with its lenders through regular communications and reporting.
- The Company continuously evaluates asset profitability and cost of capital to optimize return on capital.
- During the period where business operations were impacted by the COVID-19 pandemic, the Company had arranged for debt covenant waivers and/or amendments.

Infrastructure Expenditures

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

Mitigating factors and strategies:

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

Incurrence of Debt and the Granting of Security Interests

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

Mitigating factors and strategies:

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

Insurance

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

Mitigating factors and strategies:

- The Company maintains its facilities to high standards and continually monitors league activities and enforces a strict set of rules.
- The Company has developed risk management procedures and emergency preparedness guides at all of its locations.
- Management works closely with insurance providers.

Expansion and U.S. Operations

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

Specifically, expansion strategies include certain markets in the U.S. As such, the Company faces the risks of operating in new markets where the demographics, consumer preferences, and economic conditions can be very different from Canadian markets in which the Company primarily operates.

Operating in the U.S. also creates foreign currency risk on sales and purchases that are denominated in U.S. dollars. Should the financial results of the Company's U.S. subsidiaries significantly fall short of targets, the Company could be exposed to the risk of loss depending on the relative movement of this currency against the Canadian dollar. The Company does not currently enter into forward contracts to mitigate this risk. However, management anticipates that earnings from U.S. business activities are adequate to service the working capital needs of U.S. operations.

Mitigating factors and strategies:

- The Company performs due diligence to evaluate the structural condition of facilities, and conditions that support supply and demand in the marketplace of target investments.
- The Company performs extensive research and due diligence to evaluate and test new product offerings to ensure consumer demand matches the product offering prior to a full product launch.

- Management closely monitors the Canadian-U.S. foreign exchange rate and could utilize hedging instruments if necessary. In addition, a reasonable amount of U.S. currency is maintained on hand to meet operating needs.

Seasonality of Operations

The Company's business cycle is highly seasonal and under normal business conditions, approximately 57% of total revenues and virtually all of the operating profit are generated in the first and fourth quarters. This seasonality of operations impacts reported quarterly earnings. The operating results for any particular quarter is not necessarily a good indicator of operating results for the other fiscal quarters or the entire fiscal year. As a result of the seasonality, the highest cash flow period for the Company is in the fourth quarter when customer deposits for future ice contracts are received, and the lowest cash flow is in the summer months, when traffic is reduced.

Mitigating factors and strategies:

- Various programs are developed to increase traffic during the traditionally slower summer period.
- Variable operating costs are reduced during the summer period.
- Management ensures cash reserves are adequate to finance working capital throughout the off-peak seasons.

Competition

The recreation industry is highly competitive and Canlan competes with other private and municipal operators in various major markets. Other private operators may have more resources and less debt than Canlan, and municipal operators can operate at a loss for an indefinite period without the same negative consequences such losses would have on private companies.

Mitigating factors and strategies:

- Canlan has developed customer loyalty by providing superior customer service and facilities.
- The ice rink industry is capital intensive with high start-up expenses; therefore barriers to enter the business exist.
- We have developed expertise in all aspects of 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, 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 \$2.0 million, is subject to variable interest rates. For every 1% change in base market rates, interest expense will change by \$20,000 per annum.

Mitigating factors and strategies:

- The Company has fixed the interest rate on \$41.1 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