



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

**For the Three Months Ended March 31, 2015
As of May 14, 2015**

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 March 31, 2015 and the consolidated operating results for the three months ended March 31, 2015 compared to the three months ended March 31, 2014. This document should be read in conjunction with our unaudited condensed consolidated interim financial statements for the period ended March 31, 2015, the accompanying notes, and our audited consolidated financial statements for the years ended December 31, 2014 and December 31, 2013. 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").

In the following discussion, EBITDA (earnings before interest, taxes, depreciation and amortization) is often used as a measure of financial performance. However, EBITDA is not a term that has specific meaning in accordance with IFRS, and may be calculated differently by other companies. EBITDA is reconciled to net earnings in this MD&A.

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.

The date of this MD&A is May 14, 2015.

Forward Looking Statements

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

Overview

First quarter 2015 financial highlights

- On January 30, 2015, the Company completed the purchase of a multi-sport recreation facility in Lake Barrington, Illinois for \$7,121,000 (US\$5,600,000). This Sportsplex contains a FIFA-sized soccer field and two full gymnasiums capable of housing basketball and volleyball play. The purchase was financed with a U.S. dollar denominated term loan of \$2,797,000 (US\$2,200,000) and surplus cash. The operating results of this facility will give effect to the same store analysis below; and
- Total revenue of \$22.6 million increased by 6.5% over 2014; same store revenue increased by 3.7%.

Overview of the Company

Canlan Ice Sports Corp. is a leading operator of ice rink and multi-purpose recreational facilities. The Company's first venture into the ice rink industry was in 1986, when it acquired a facility known as Columbia 4 Rinks located in Burnaby B.C. This facility was expanded in 1995 to an eight-rink facility, which is now known as Burnaby 8Rinks. The Company's head office is located in the Burnaby facility and it maintains a second corporate office at its Ice Sports York location in Toronto, Ontario. We currently have approximately 1,000 full time and part time employees working in our facilities and two corporate offices.

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

Our largest single revenue source within this segment is adult hockey, catering to both men and women operating under the Adult Safe Hockey League (ASHL) brand.

Facility Portfolio:

The geographic locations of our owned, leased and managed properties, are as follows:

		Ice	Indoor		Total
<u>Canada:</u>	Facilities	Surfaces	Turf Fields	Courts ^a	Playing surfaces
British Columbia	5	14	1	-	15
Saskatchewan	2	6	-	-	6
Manitoba	1	3	1	-	4
Ontario	7	22	2	9	33
Quebec	1	4	-	-	4
	16	49	4	9	62
<u>USA:</u>					
Illinois	2 ^c	3	1 ^b	4	8
Indiana	2	3	-	8	11
	4	6	1	12	19
	20	55	5	21	81

Note

- a) Includes 11 indoor volleyball courts, 4 outdoor beach volleyball courts, 4 basketball courts and 2 sport courts
- b) This is a FIFA regulation field
- c) One of the facilities in Illinois was purchased on January 30, 2015.

Canlan is a publicly traded Canadian Company with its shares listed on the Toronto Stock Exchange (TSX) using the trading symbol **ICE**. Canlan's shares were first listed for trading on March 1, 1990. There are approximately 13.3 million shares outstanding and have traded in the \$3.06 to \$3.48 range during the quarter. The Company has not issued any shares since November 2004.

The Company derives revenue from seven primary sources:

- Ice and field sales
- Food and beverage
- Sports stores
- Space rental
- Tournament operations
- Management and consulting
- Sponsorship

Selected Financial Information

The following selected consolidated financial information is for the three months ended and as at March 31, 2015, 2014 and 2013. This data should be read together with the unaudited condensed consolidated interim financial statements for the periods ended March 31, 2015, 2014, and 2013.

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 three months ended March 31,	2015	2014	2013
Statement of Operations Data:			
Total revenue (1)	\$ 22,575	\$ 21,198	\$ 20,661
Direct expenses (2)	15,901	14,574	14,782
General & administration expenses	1,255	1,181	1,214
EBITDA	5,419	5,443	4,665
Other expenses (3)	3,255	2,119	1,923
Earnings before tax	2,164	3,324	2,742
Current and deferred tax expense	646	866	712
Net earnings	\$ 1,518	\$ 2,458	\$ 2,030
Basic and fully diluted earnings per share	\$ 0.11	\$ 0.18	\$ 0.15
Balance Sheet Data:			
Cash	\$ 8,055	\$ 8,661	\$ 9,318
Current assets (excluding cash)	5,072	4,390	4,681
Capital assets and investment properties	104,667	88,961	85,165
Other assets	1,682	1,622	1,604
Total assets	\$ 119,476	\$ 103,634	\$ 100,768
Current liabilities, excluding debt	\$ 15,266	\$ 14,908	\$ 14,421
Debt	55,098	39,272	37,487
Equipment leases	2,139	1,573	1,597
Deferred tax liabilities	937	734	573
Total liabilities	\$ 73,440	\$ 56,487	\$ 54,078

- (1) Total revenue is comprised of all revenue sources – See page 3.
- (2) Direct expenses include all operating costs related to the operation of our facilities, excluding depreciation.
- (3) Other expenses include depreciation, foreign exchange gain/loss, and finance income & costs.

Review of Operations – Three months ended March 31, 2015

Comparative Results

Total revenue of \$22.6 million increased by \$1.4 million or 6.5% compared to the prior year. Same store revenue increased by \$0.8 million or 3.7%, principally due to an increase in ice and field revenue.

In our facilities, total ice and field revenue of \$18.0 million increased by \$1.3 million or 7.5% compared to the prior year. Same store ice and field revenue of \$17.5 million increased by \$0.7 million or 4.4% compared to prior year. ASHL, contract ice rentals, and youth hockey leagues from the western, prairie and the U.S. regions were the main sources of ice revenue growth.

Food & beverage revenue of \$3.2 million remained relatively consistent with prior year.

Sports store revenue of \$0.5 million remained relatively consistent with prior year. Canlan operates sports stores in eight facilities that sell equipment, apparel and provide skate sharpening services.

Tournament operations revenue of \$0.1 million remained relatively consistent with prior year. The tournament division is most active in the second and third quarters, when the majority of our youth tournaments are held.

Also included in revenue are sponsorship, space rental, vending, and management and consulting fees. Revenue from these sources of \$0.7 million increased by \$0.1 million or 18.5% compared to prior year, mainly due to additional space rental and management fees.

Revenue by business segment:

in thousands

Three months ended March 31	2015	2014
Ice and field sales	\$ 18,022	\$ 16,761
Food and beverage	3,215	3,170
Sports store	532	539
Sponsorship	239	231
Space rental	235	189
Tournament operations	115	145
Management and consulting fees	102	32
Other	115	131
Total revenue	\$ 22,575	\$ 21,198

Facility expenses include all costs directly related to the operations of our recreation properties. Total direct operating costs of \$15.9 million increased by \$1.3 million or 9.1% compared to prior year. Same store direct operating costs of \$15.5 million increased by \$1.0 million or 6.7%. The increase is mainly due to higher labor and repair and maintenance expenses compared to the same period of 2014. In addition, marketing costs and customer service expenses also rose in Q1 compared to the prior year.

Corporate general and administration costs of \$1.3 million increased by \$0.1 million or 6.3% compared to 2014. This was principally due to increased corporate support travel and fair value adjustments of the Company's stock appreciation rights plan. Fair value changes of the rights are based on market value of Canlan's common stock that trades on the TSX. See *Liquidity and Capital Resources* – Share Capital below for further details. Included in corporate general and administration are costs related to management support services to all facilities, including accounting, marketing, operations, IT support, and human resources. In addition, all costs related to the Partnership Solutions division are included in corporate administration expenses.

After G&A, EBITDA was \$5.4 million remained relatively steady with prior year.

Total interest expense of \$0.8 million related to our term debt and finance leases increased by \$0.1 million or 21.1% compared to prior year mainly due to additional debt and finance leases. After recording depreciation of \$1.7 million, foreign exchange loss of \$0.8 million, and income tax expense of \$0.6 million, net earnings for the quarter was \$1.5 million (\$0.11 per share) compared to \$2.5 million (\$0.18 per share) a year ago.

Contract Management and Consulting Services

The Company operates a Partnership Solutions division that provides various services to private groups and municipalities, from one time consulting engagements to long-term management contracts. In addition, this group seeks out opportunities from which the Company can expand its portfolio of recreation facilities either by acquisition or lease. The Partnership Solutions team is currently working on a number of new projects both in Canada and the USA. At March 31, 2015, the Company is involved in three management contracts and one consulting engagement that earned management and consulting fees.

Earnings by Quarter

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

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

	2015		2014			2013		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Gross revenue	\$ 22,575	\$ 21,888	\$ 16,166	\$ 16,480	\$ 21,198	\$ 20,959	\$ 15,093	\$ 16,078
Operating costs	(15,901)	(15,623)	(14,718)	(15,174)	(14,574)	(14,562)	(14,220)	(15,205)
	6,674	6,265	1,448	1,306	6,624	6,397	873	873
General & administration	(1,255)	(1,315)	(979)	(1,084)	(1,181)	(895)	(890)	(1,235)
EBITDA	5,419	4,950	469	222	5,443	5,502	(17)	(362)
Depreciation	(1,683)	(1,677)	(1,516)	(1,470)	(1,469)	(1,510)	(1,461)	(1,357)
Finance costs	(732)	(701)	(623)	(610)	(598)	(620)	(602)	(561)
Other	(840)	(296)	(310)	39	(52)	(45)	31	(51)
Net earnings (loss) before taxes and other	2,164	2,276	(1,980)	(1,819)	3,324	3,327	(2,049)	(2,331)
Income taxes	(646)	(561)	137	385	(866)	(890)	443	566
Net earnings (loss)	\$ 1,518	\$ 1,715	\$ (1,843)	\$ (1,434)	\$ 2,458	\$ 2,437	\$ (1,606)	\$ (1,765)
Earnings (loss) per share	\$ 0.11	\$ 0.13	\$ (0.14)	\$ (0.11)	\$ 0.18	\$ 0.18	\$ (0.12)	\$ (0.13)

Review of Assets

The table below summarizes the Company's asset base:

<i>in thousands</i>	March 31, 2015	December 31, 2014
Properties	\$ 104,097	\$ 97,682
Cash	8,055	13,534
Accounts receivable	2,391	2,781
Prepaid expenses and other assets	2,026	1,110
Inventory	998	1,037
Investment properties	570	570
Deferred income taxes	1,339	1,308
	\$ 119,476	\$ 118,022

On January 30, 2015, the Company completed the purchase of a multi-sport recreation facility in Lake Barrington, Illinois for \$7,121,000 (US\$5,600,000). An additional \$0.1 million was incurred to purchase computers and furniture and fixtures during the first quarter. This Sportsplex contains a FIFA-sized soccer field and two full gymnasiums capable of housing basketball and volleyball play. The purchase was financed with a U.S. dollar denominated term loan of \$2,797,000 (US\$2,200,000) and surplus cash.

In addition, during the three months ended March 31, 2015, the Company spent \$0.3 million (2014 - \$0.2 million) on capital expenditures related to improving amenities at various recreation facilities. Expenditures undertaken during the period relate to new refrigeration equipment and food and beverage equipment.

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

The table below summarizes the Company's capital structure:

<i>in thousands</i>	March 31, 2015	December 31, 2014
Debt	\$ 55,098	\$ 51,771
Deferred revenue and customer deposits	6,776	11,333
Accounts payable	8,490	7,351
Capital leases	2,139	1,811
Deferred income taxes	937	971
	73,440	73,237
Shareholders' equity	46,036	44,785
	\$ 119,476	\$ 118,022

Total interest bearing debt, which includes debt and capital leases, totaled \$57.2 million as at March 31, 2015, compared to \$53.6 million as at December 31, 2014. The net increase of \$3.6 million resulted from new financing related to the purchase of the Lake Barrington recreation facility (see *Review of Assets*), and additional equipment leases less our normal scheduled debt repayments.

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

At March 31, 2015, we had a working capital deficit of \$6.9 million compared to \$5.0 million at December 31, 2014. The increase was a result of the use of surplus cash in the purchase of the Lake Barrington facility offset by the decrease in deferred revenue as ASHL games are played during the quarter.

Debt

As at March 31, 2015, debt consists of eight credit facilities, six of which have been drawn, as follows:

(a) Lending institutions credit facilities:

- \$30.0 million loan maturing on July 15, 2018, fixed interest at 6.79% per annum payable monthly. At March 31, 2015, the balance outstanding was \$21.0 million;
- \$15.0 million loan maturing on May 31, 2018, interest at Prime rate plus 0.75% per annum payable monthly. At March 31, 2015, the balance outstanding was \$14.1 million;
- \$4.7 million loan maturing on May 31, 2018, interest at the 30-day Canadian Bankers Acceptance rate plus 2.00% per annum payable monthly. At March 31, 2015, the balance outstanding was \$4.0 million;

- \$5.4 million (US\$5.0 million) loan maturing on August 1, 2019, interest at LIBOR plus 2.5% per annum payable monthly. At March 31, 2015, the balance outstanding was \$6.1 million (US\$4.8 million). This loan is denominated in U.S. currency;
- \$2.8 million (US\$2.2 million) loan maturing on February 1, 2020, interest at LIBOR plus 2.5% per annum payable monthly. At March 31, 2015, the balance outstanding was \$2.8 million (US\$2.2 million). This loan is denominated in U.S. currency. The credit facility was used to finance the purchase of a facility in Lake Barrington, Illinois;
- \$1.7 million demand revolving loan maturing on May 31, 2018, interest at Prime rate plus 0.75% per annum. No amounts have been drawn on this loan to date; and
- \$5.0 million committed revolving acquisition loan maturing on May 31, 2018, interest at Prime rate plus 0.75% per annum. No amounts have been drawn on this loan to date.

(b) Vendor-take-back mortgage:

- \$6.6 million (US\$6.0 million) vendor-take-back mortgage maturing on September 1, 2019, fixed interest rate at 5.97% per annum payable monthly. At March 31, 2015, the balance outstanding was \$7.5 million (US\$5.9 million). This loan is denominated in U.S. currency.

We were in full compliance with all our debt covenants as at March 31, 2015.

Liquidity and Capital Resources

The Company's debt to equity ratio was 1.24:1 at the end of the first quarter, compared to 1.20:1 at December 31, 2014. The ratio has increased principally due to the increase in debt (see *Review of Liabilities*).

During the first three months of the year, the Company had positive cash flow from operations of \$0.2 million (2014 – negative \$0.2 million), mainly due to the reduction of accounts receivable and timing of payments to vendors. The majority of our cash is collected in the fourth quarter in the form of customer deposits to secure future ice and field time.

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

in thousands

Three months ended March 31	2015	2014
EBITDA	\$ 5,419	\$ 5,443
Changes in working capital items	(4,104)	(4,283)
Net interest expense	(732)	(598)
Income tax effect included in changes in working capital	(711)	(830)
Unrealized foreign currency loss	308	35
Other	(6)	9
Cash flow from operations	<u>\$ 174</u>	<u>\$ (224)</u>

During the three months ended March 31, 2015, the Company also increased borrowings by \$2.8 million, utilized \$0.8 million to make scheduled debt and lease repayments, purchased a recreation facility in Illinois for \$7.2 million, incurred other capital expenditures of \$0.3 million, and paid quarterly dividends of \$0.3 million. A quarterly dividend of \$0.3 million was also announced to shareholders of record on April 2, 2015 that was paid on April 17, 2015.

The Company's cash position at March 31, 2015 was \$8.1 million, a decrease of \$5.5 million from December 31, 2014 mainly due to cash used in the purchase of the Lake Barrington facility.

in thousands

Three months ended March 31	2015	2014
Cash provided by (used in):		
Operations	\$ 174	\$ (224)
Financing	2,005	(747)
Investing	(7,555)	(242)
Foreign currency change	164	61
Dividends paid	(267)	(267)
Cash flow from operations	<u>\$ (5,479)</u>	<u>\$ (1,419)</u>

Share Capital

Shares issued and outstanding at March 31, 2015 and December 31, 2014	<u>13,337,448</u>
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Weighted average number of shares outstanding	<u>13,337,448</u>
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The Company did not issue any shares during the period and does not have a stock option plan.

The Company established a stock appreciation rights (SARs) plan in 2005. The SARs plan provides eligible employees and directors with the right to receive cash equal to the appreciation of the Company's common shares subsequent to the date of the grant. The

granted SARs vest in equal installments over a three year period and expire in three years from the grant date.

During the period, 35,000 SARs were granted and 76,100 SARs were exercised with cash payment of \$70,000 to rights-holders.

As at March 31, 2015, 608,735 stock appreciation rights were outstanding with a weighted average exercise price of \$2.45. Of these rights, 23,565 rights are vested and exercisable with a weighted average exercise price of \$2.30 as at March 31, 2015.

During the three months ended March 31, 2015, stock-based compensation expense of \$123,000 (2014 – \$60,000) related to the SARs plan was recorded.

Transactions with Related Parties

Canlan's controlling shareholder, Bartrac Investments Ltd., owns approximately 10.1 million shares of the Company, or 75% of the outstanding shares.

There were no transactions with Bartrac Investments Ltd. or its subsidiaries during the period.

Financial Instruments

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

- Transaction costs that are directly attributable to the issuance of financial assets or liabilities are accounted for as part of the carrying cost at inception and are recognized over the term of assets or liabilities using the effective interest method.

The Company does not have held for trading financial liabilities or held to maturity investments at March 31, 2015. The Company had no "other comprehensive income or loss" transactions during the three months ended March 31, 2015 and no opening or closing balances for accumulated other comprehensive income or loss.

Critical Accounting Policies and Estimates

Canlan's significant accounting policies are described in Note 4 of our audited consolidated financial statements for the years ended December 31, 2014 and December 31, 2013. The preparation of the consolidated financial statements in conformity with IFRS requires us to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

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

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

Revenue recognition

Revenue from operations is recognized as the product or service is supplied. Deferred revenue relates to amounts received in advance for the Company's adult recreational leagues; revenue is recognized as games are played. A certain amount of judgment is required in the determination of revenue recognition based on the Company's estimates. Any differences are recognized upon completion of the season.

Accounts receivable

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

Impairment and recoverability of property plant and equipment

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

Useful lives of property, plant and equipment

Property, plant, and equipment are depreciated on a straight-line basis over their estimated useful life. Approximately 87% of the Company's total assets are comprised of recreational properties. The selection method of depreciation and length of the depreciation period could have a material impact on depreciation expense and the net book value of the Company's assets. Assets may become obsolete or require replacement before the end of their estimated useful lives, in which case any remaining unamortized costs would be written off.

Accounting for stock-based compensation

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

Deferred income tax

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

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 March 31, 2015.

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 March 31, 2015. 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). 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 March 31, 2015.

Risk Factors

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

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

Leverage and ability to service indebtedness

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

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

- the Company's less leveraged competitors could have a competitive advantage.

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

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

Mitigating factors and strategies:

- The Company manages its capital with the objectives of maintaining a financial position suitable for servicing debt in accordance with repayment schedules, complying with debt covenants, and supporting our growth strategies.
- The Company maintains good relationships with its lenders through regular communications and reporting.

Infrastructure expenditures

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

Mitigating factors and strategies:

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

Incurrence of debt and the granting of security interests

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

Mitigating factors and strategies:

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

Insurance

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

Mitigating factors and strategies:

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

U.S. operations

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

In addition, the Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Company, the Canadian dollar. The currency in which these transactions are denominated is the U.S. dollar. The Company is 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 expects that earnings from U.S. business activities are adequate to service operating costs, debt payments, and other cash needs of U.S. operations.

Mitigating factors and strategies:

- The Company performs due diligence to evaluate the structural condition of facilities, and conditions that support supply and demand in the marketplace.
- Management closely monitors the Canadian-US foreign exchange rate and could utilize hedging instruments if necessary. In addition, a reasonable amount of US currency is maintained on hand to meet operating needs.

Seasonality of operations

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

Mitigating factors and strategies:

- Various programs are developed to increase traffic during the summer period.
- Variable operating costs are reduced during the summer period.
- Certain term debt and finance lease carry seasonal repayment schedules.

Competition

The ice rink industry is highly competitive and Canlan competes with other private operators in its four major markets, B.C., Manitoba, Ontario and Quebec, as well as Municipal Governments that have different mandates and usually operate with significant losses. 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 operations.

Employee and union relations

The Company has unionized employees at three of its facilities. The presence of a unionized work force increases the possibility that a labour dispute will effect operations at a facility. The three union agreements will expire on October 2015, October 2017, and February 2018. The Company may not be able to negotiate a new contract on favorable terms, which could result in increased operating costs as a result of higher wages or benefits paid to its unionized workers. If unionized workers engage in a strike or other work stoppage, the Company could experience a significant disruption in its operations or higher ongoing labour costs, which could have material adverse effects on the business, financial condition, results of operations and cash flows.

Mitigating factors and strategies:

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

Key personnel

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

Mitigating factors and strategies:

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

Utility costs

As electricity, natural gas and water are significant components of operating costs of our facilities, it is susceptible to fluctuations in the market price of energy. If the Company experiences any power fluctuations or outages or cannot maintain adequate sources of natural gas and water, this may have a material adverse effect on the Company's business, financial conditions, results of operations and cash flows.

Mitigating factors and strategies:

- The Company enters into medium-term energy contracts to mitigate the price fluctuations of gas and electricity.

Interest rate risk

Mortgage debt of \$26.9 million, is subject to variable interest rates. For every 1% change in base market rates, interest expense will change by \$269,000 per annum.

Mitigating factors and strategies:

- The Company has fixed the interest rate on 51% of its loans, which totals \$28.5 million.

Control by principal shareholders

The principal shareholder, Bartrac Investments Ltd. holds 10,075,947 Common Shares and controls approximately 75% of the aggregate voting power of the Corporation, which will allow it to control substantially all the actions taken by the shareholders of the Company, including the election of the directors. 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.

Michael F. Gellard
Senior Vice-President
Chief Financial Officer