Celebrating 20 YEARS

2018 Annual Report

CANLAN ICE SPORTS

The experience is everything.

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LETTER TO SHAREHOLDERS

In 1998, then Canlan Investment Corp., we made a strategic decision to officially turn our sole focus to the ice sports industry, and today we celebrate our 20-year anniversary as the largest and most successful operator in the space. Keeping that strategy in mind, Canlan Ice Sports Corp. has since leveraged its core competencies in recreational ice sports programming and facility operations to add facilities and introduce new offerings in the areas of turf and court sports. We are excited to continue expanding into these popular and growing team sports while continuing to push the boundaries in hockey and skating.

While we have achieved much in the last 20 years, there is plenty of excitement in store for the future of Canlan. Fiscal 2018 was a year of reflection, which led to increased efficiencies in key parts of the business, a change in leadership in some areas, and the evaluation of our portfolio that resulted in an asset optimization process, which is now underway. This leaner, more agile model and mindset has reinvigorated the team at all levels and has already led to superior results, with EBITDA growing year over year by 14.7%.

During the year, we launched the Sport Tourism program offering families, players and teams from around the world, the opportunity to come to Canada and experience the game of hockey, the Canadian way. We saw that China was looking to increase hockey participation leading up to the 2022 winter Olympics and our response was to create an offering that was customizable with camps, exhibition games, tournaments, events and tourism for young hockey players and their families from China and around the world. Canlan Sport Tourism is already receiving positive feedback and we have high expectations of what the future holds.

Wild Wing became our new food & beverage brand of choice, replacing the Thirsty Penguin. Our team was trained in the Wild Wing system and our restaurants' atmosphere was improved during this transition. Our customers have been extremely happy with the quality of the food and the menu offerings. The relationship with the Wild Wing leadership has been tremendous and the first-year results were favorable. We expect these improvements to continue as customer capture rates continue to increase.

Our energy conservation strategy, which was developed nearly a decade ago and refined year after year, has been game changing in terms of ice quality, carbon emission reduction and margin improvement. In a world where energy costs are on the rise, margins are eroding and competition is fierce, we've successfully developed an energy reduction model that positions us to compete more aggressively and capitalize on future growth opportunities.

Part of our new game plan is to challenge the status quo, with the intent of reinventing ourselves, and to a certain degree, the industry. We converted Ice Sports York at the York University campus, to a "Training & Innovation Centre". This facility is now the Training Centre for all new management entering the organization and an innovation hub where we test pilot new products and services before bringing them to life within the Canlan ecosystem. When we look back 10 years from now, like we did in 1998 in choosing to focus on Ice Sports, and in 2008 in focusing on energy management, we want this time in our history to mark a change towards true innovation and how Canlan took recreational sports to the next level.

Financially, 2018 marked our sixth consecutive year of record revenue and EBITDA growth. Revenues of $87.6 million increased $2.2 million or 2.6% while EBITDA of $14.7 million rose $1.9 million or 14.7% compared to 2017. Operating margin increased to 23.3% from 21.9% a year ago. We increased the Company's quarterly dividend by 25% from $0.02 per share to $0.025 per share beginning on July 17, 2018.

None of this would have been possible without the support, dedication and commitment of our team. We have incredible people who understand the importance of teamwork and customer service. The bi-product is superior products and services, improved customer experiences and superior returns.

We are extremely grateful to our loyal customers who choose to make Canlan their home and we consider our business partners and stakeholders an extension of our team as we cannot do this without you. To all of you we say thank you, and we are committed to keep challenging ourselves to bring about continued positive change and positive results.

Sincerely,

Joey St-Aubin
President and Chief Executive Officer

FACILITY LOCATIONS

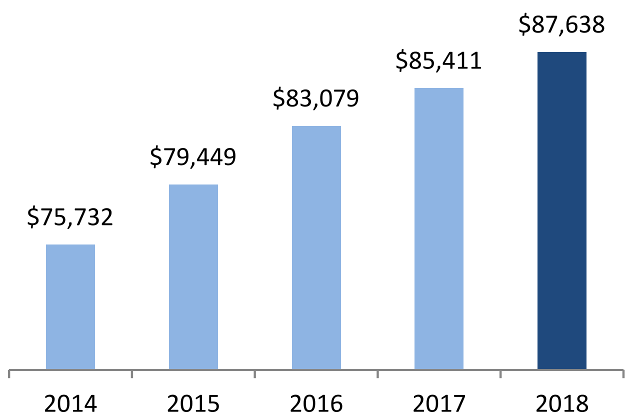
PROVINCE /STATE	METROPOLITAN AREA	FACILITY NAME		FEATURES
British Columbia	Greater Vancouver Area	Burnaby 8 Rinks	(1)	7 ice rinks & 1 indoor soccer field
		Ice Sports North Shore	(4)	3 ice rinks
		Ice Sports Langley Twin Rinks	(2)	2 ice rinks
	Interior British Columbia	South Cariboo Recreation Centre	(3)	1 ice rink
		Armstrong/Spallumcheen Parks & Recreation	(3)	1 ice rink & 1 outdoor pool
Alberta	Calgary	Great Plains Recreation Facility	(4)	2 ice rinks
Saskatchewan	Saskatoon	Ice Sports Jemini	(1)	4 ice rinks
		Ice Sports Agriplace	(1)	2 ice rinks
Manitoba	Winnipeg	Ice Sports Winnipeg	(1)	3 ice rinks & 1 indoor soccer field
Ontario	Greater Toronto Area	Ice Sports Etobicoke	(1)	4 ice rinks
		Ice Sports Oakville	(1)	4 ice rinks
		Ice Sports Scarborough	(1)	4 ice rinks & 1 sport court
		Ice Sports Victoria Park	(2)	2 ice rinks
		Ice Sports York	(2)	6 ice rinks
		Ice Sports Oshawa	(1)	2 ice rinks & 6 beach volleyball courts
		Canlan Sportsplex Mississauga	(2)	2 soccer fields & 4 sport courts
Quebec	Montreal	Les 4 Glaces	(1)	4 ice rinks
Illinois	Chicago	Ice Sports Romeoville	(1)	3 ice rinks
		Canlan Sportsplex Lake Barrington	(1)	1 soccer field (FIFA size) 2 baseball diamonds 2 multi-sport gymnasiums & 1 fitness gym
		Ice Sports West Dundee ❖	(1)	3 ice rinks
Indiana	Fort Wayne	SportONE/Parkview Icehouse	(1)	3 ice rinks

(1) Owned Property (2) Leased Property (3) Managed Property (4) Operating Agreement

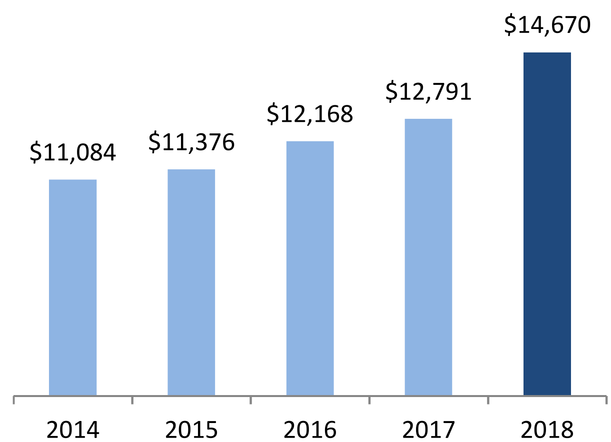
❖ Property Purchased in March 2019

FINANCIAL HIGHLIGHTS

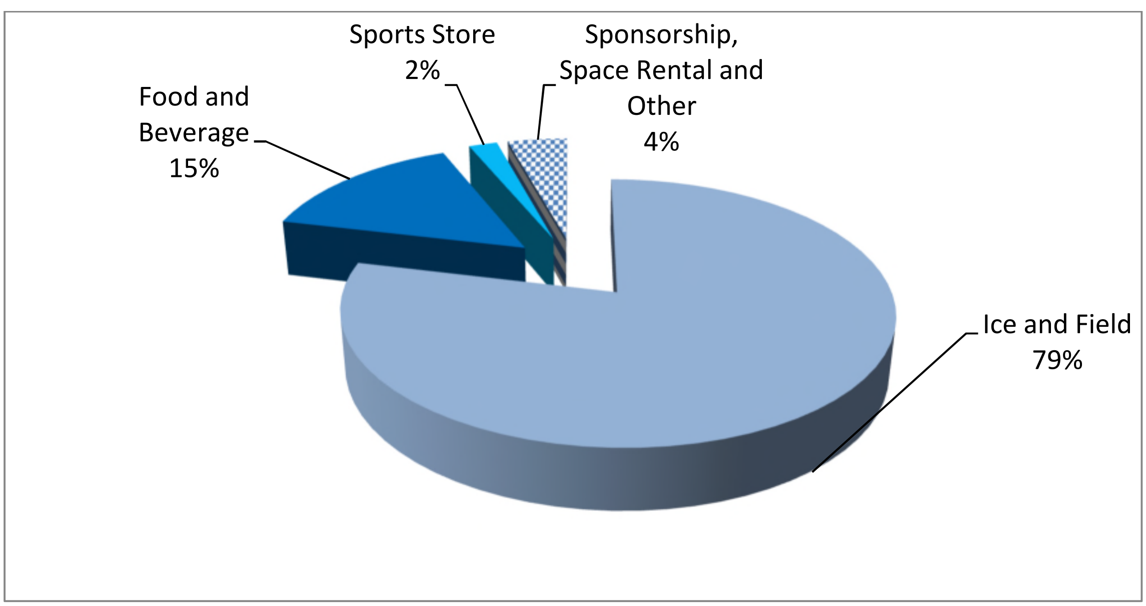
in thousands, except per share information	2018	2017	2016
Revenue	$87,638	$85,411	$83,079
Earnings before interest, taxes, depreciation and amortization (EBITDA)	$14,670	$12,791	$12,168
Net earnings before taxes	$5,594	$4,733	$1,017
Net earnings	$4,483	$3,557	$1,294
Total assets	$128,935	$125,720	$125,559
Shareholders' equity	$49,824	$45,198	$43,565
Earnings per common share	$0.34	$0.27	$0.10
Shareholders' equity per share	$3.74	$3.39	$3.27
Weighted average common shares	13,337,448	13,337,448	13,337,448



Revenue (in thousands)



EBITDA (in thousands)



2018 Sources of Revenue

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, 2018 and 2017. This document should be read in conjunction with our audited consolidated financial statements for the years ended December 31, 2018 and 2017 and accompanying notes. The results reported herein have been prepared in accordance with International Financial Reporting Standards ('IFRS') and are presented in Canadian dollars.

In the following discussion, we define EBITDA as earnings before interest, taxes, depreciation and amortization. In addition, the term free cash flow is used, which we calculate as cash flow from operations less capital expenditures minus any proceeds from the disposition of capital assets. However, EBITDA and free cash flow are not terms that have specific meaning in accordance with IFRS, and may be calculated differently by other companies. The Company discloses EBITDA and free cash flow because these are useful indicators of operating performance and liquidity.

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.icesports.com.

The date of this MD&A is March 21, 2019.

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.

Summary of 2018

- Revenue of $87.6 million increased $2.2 million or 2.6% compared to 2017;
- Operating margin increased to 23.3% from 21.9% a year ago;
- EBITDA of $14.7 million rose $1.9 million or 14.7% compared to 2017;
- Cash flow from operations increased by $1.6 million or 14.9% compared to 2017; and
- Total utilities expenses decreased by $0.7 million or 9.4% due to continuing energy management initiatives.

Overview of the Company

Canlan Ice Sports Corp. is a leading operator of ice rink and multi-purpose recreational facilities. The Company's head office is located in its Burnaby, B.C. sports complex and it maintains a second corporate office at its Ice Sports York location in Toronto, Ontario. We currently have approximately 1,100 full time and part time employees working in our facilities.

As at the date of this MD&A the Company owns, leases or manages a network of 21 facilities in Canada and the United States containing playing surfaces as outlined below. The Company owns 13 of these facilities containing 1.5 million square feet of space situated on 165 acres of land. One facility is operated under a long-term land lease arrangement, two facilities under operating agreements with municipalities and a further three facilities under operating leases. We also manage two facilities on behalf of municipalities.

We operate primarily in the sports and recreation industry, with a focus on ice, turf and court sports. 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. Approximately 40% of our ice and field revenue is generated by the ASHL.

The Company's facility portfolio over the past five years, including all owned, leased and managed properties, is as follows:

	Number of Facilities	***Surfaces***
2018	**20**	**77**
2017	20	77
2016	20	77
2015	21	83
2014	20	81

A more detailed summary of the current locations of our facilities is as follows:

Canada:	**Facilities**	**Ice Surfaces**	**Indoor Turf Fields**	**Courts** [a]	**Total Playing surfaces**
British Columbia	5	14	1	-	15
Alberta	1	2	-	-	2
Saskatchewan	2	6	-	-	6
Manitoba	1	3	1	-	4
Ontario	7	22	2	11	35
Quebec	1	4	-	-	4
	17	**51**	**4**	**11**	**66**
USA:					
Illinois	3 [c]	6	1 [b]	4	11
Indiana	1	3	-	-	3
	4	**9**	**1**	**4**	**14**
	21	**60**	**5**	**15**	**80**

Note

a) Includes 3 indoor volleyball courts, 6 outdoor beach volleyball courts, 4 basketball courts and 2 sport courts

b) This is a FIFA regulation field (divisible into multiple fields)

c) One facility located in Illinois, with 3 ice surfaces, was purchased on March 19, 2019

About Canlan

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 $4.32 to $5.25 range since December 31, 2018. 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 and field rentals (together called "ice rentals" or "ice sales"), and internal programming.

2. **Food and beverage**
   Sales from our licensed restaurants and concession operations inside our facilities.

3. **Sports stores**
   Sales and rental of sports equipment and apparel, and skate sharpening services.

4. **Management and consulting**
   Fees from managing facilities owned by third parties and consulting engagements completed by our Partnership Solutions Division.

5. **Sponsorship**
   Revenue from sponsorship and advertising sales.

6. **Space rental**
   Rental of space inside our facilities.

Vision, Core Business and Strategy

Canlan will strive to be:

> **"A high performance industry leader, passionately committed to providing exceptional customer experiences, every time."**

The Company's goal is to leverage its position in the North American recreation industry by continuing to focus on both organic growth and expansion through acquisition. While our largest single market segment is adult recreational hockey leagues, we are focused on increasing utilization in other important segments including skating and hockey schools, soccer programs, court sports such as volleyball and ball hockey, specialty sports leagues and camps, and hockey tournaments. By providing quality products and services in clean, safe facilities, we still have capacity to grow our existing revenue base by providing value added services to our customers. At the same time, we actively seek opportunities to expand our business through acquisition. Expansion objectives are to achieve a high return on investment and penetrate strategic markets.

We have developed six critical success factors supported by specific project initiatives that help the organization reach our goals:

1) **Sales and Marketing** - Cutting edge marketing that maximizes brand awareness, revenue and customer loyalty.

2) **Customer Experience** – Exceptional service delivered by well-trained and motivated staff, which results in consistently great experiences.

3) **New Ventures & Innovation** - Proactively seek out new opportunities that drive revenue and income growth.

4) **Operational Excellence** – Highly efficient and effective facility operations using industry–leading technology, streamlined process and consistent best practices.

5) **People & Leadership** – Strong leadership and highly dedicated people accountable for delivering outstanding customer experiences and business results.

6) **Culture** – High energy action-oriented culture that has a strong foundation in team-work, pride, respect and accountability.

Management continues to focus on carrying out these initiatives that are connected with these critical success factors. Over the past five years, several new ventures have been established and operational improvements have been achieved through strategic capital investments.

The Marketplace and Our Competition

Canlan's current marketplace is recreation, and we understand that we compete for market share with other sports and activities, some of which have lower participation costs. Our largest program is Adult Safe Hockey League. This segment of our business represents 40% of our total ice and field revenue from rentals and programming, or $27.4 million. It also represents 31% of total revenue.

Canlan's largest competition is from municipalities and private league operators. Local governments cater primarily to their constituents who are usually made up of minor hockey and other amateur user groups. There are many private league operators in Canada that purchase ice time from local rinks and run adult leagues, and in some markets, there have been private operators that have constructed new ice rink facilities and operate competing leagues that capture market share. However, Canlan has various competitive advantages, one of which is that we control the ice inventory in our facilities, enabling us to schedule ice times efficiently and provide quality ice times where deemed most appropriate. In addition, our adult hockey leagues offer a level of fair competition and service that helps retain customers. Finally, our facilities are generally full-service sports & entertainment centers where we incorporate retail and food & beverage services into the customers' experience.

Competitive Strengths

The Company believes that it has the following competitive strengths:

- ***Our Team***. Canlan currently has 1,100 full and part time dedicated employees in Canada and the USA. Through training and internal communications, we have established Canlan as the place to work in our segment and we attract skilled people in the industry. Our employees have industry-specific knowledge and are focused on providing quality customer service and a safe environment. In addition, Canlan's executive team is comprised of seven members who plan and monitor operations in all departments, set policies, and continually assess future growth strategies. These individuals have extensive expertise in facility operations, sales, marketing, customer service, finance and human resources.

- ***Adult Safe Hockey League (ASHL)***. The Company operates one of the largest adult recreational hockey leagues in North America. The ASHL offers superior services and fair competition in a fun environment. It operates year-round and has approximately 63,000 players registered for the winter and summer seasons in various divisions based on skill and age.

- ***Diversified Recreation***. In addition to ice surfaces, the Company also operates turf fields and sport courts on which many other sports can be played such as, but not limited to, soccer, volleyball, basketball, and ball hockey. This enables the Company to diversify its product offerings and expand its market reach to various demographic groups.

- ***Geographic Coverage***. Canlan currently owns and operates facilities in six provinces in Canada and two U.S. states 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 in a number of categories, we are able to negotiate national supply agreements for preferred pricing.

Selected Financial Information

The following selected consolidated financial information as at December 31, 2018, 2017, and 2016 and each of the quarters and years then ended has been derived from our 2018 and 2017 annual and interim consolidated financial statements. This data should be read together with those financial statements.

	(unaudited) Quarter ended December 31		*(audited)* Year ended		
in thousands, except earnings per share	**2018**	2017	**2018**	2017	2016
Statement of Operations Data:					
Total revenue	**$ 24,799**	$ 24,278	**$ 87,638**	$ 85,411	$ 83,079
Direct expenses [(1)]	**(17,689)**	(16,702)	**(67,201)**	(66,701)	(65,717)
General & administration expenses	**(1,577)**	(2,074)	**(5,767)**	(5,919)	(5,194)
EBITDA	**5,533**	5,502	**14,670**	12,791	12,168
Other expenses:					
Depreciation	**(1,776)**	(1,706)	**(6,929)**	(6,951)	(7,017)
Finance costs	**(495)**	(511)	**(2,039)**	(2,117)	(4,888)
Foreign exchange gain (loss)	**64**	3	**91**	(24)	474
Gain (loss) on interest rate swap	**(570)**	85	**(209)**	1,027	259
Gain on sale of assets	**5**	-	**10**	7	21
Tax recovery (expense)	**(497)**	(939)	**(1,111)**	(1,176)	277
Net earnings	**$ 2,264**	$ 2,434	**$ 4,483**	$ 3,557	$ 1,294
Other comprehensive income (loss)	**1,136**	37	**1,410**	(857)	(390)
Total comprehensive income	**$ 3,400**	$ 2,471	**$ 5,893**	$ 2,700	$ 904
Basic and fully diluted earnings per share	**$ 0.17**	$ 0.18	**$ 0.34**	$ 0.27	$ 0.10
Balance Sheet Data:					
Cash and cash equivalents			**$ 19,845**	$ 18,629	$ 16,335
Current assets (excluding cash)			**5,561**	4,742	4,392
Capital assets			**99,582**	99,146	102,500
Assets held-for-sale			**596**	-	-
Interest rate swap			**1,077**	1,286	259
Other assets			**2,274**	1,917	2,073
Total assets			**$ 128,935**	$ 125,720	$ 125,559
Current liabilities, excluding debt			**$ 25,448**	$ 23,314	$ 22,090
Mortgage debt			**50,811**	53,679	55,593
Equipment leases			**1,714**	2,341	3,413
Deferred tax liabilities			**1,138**	1,188	898
Total liabilities			**79,111**	80,522	81,994
Shareholders's equity			**49,824**	45,198	43,565
			$ 128,935	$ 125,720	$ 125,559
Dividends declared			**$ 1,267**	$ 1,067	$ 1,067

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

Review of Fiscal 2018 Operations

Revenue

Total revenue of $87.6 million increased by $2.2 million or 2.6% compared to 2017.

Approximately 79% or $69.0 million (2017 - $67.7 million) of the Company's total revenue is generated from ice and field activities. In-house programming accounts for approximately 72% of this revenue source and gives us a distinct advantage over third-party rentals because it enables us to manage ice and field inventory based on demand. Canlan's largest internal program is the Adult Safe Hockey League.

The Adult Safe Hockey League

The ASHL operates in two seasons: 1) the fall/winter season from September to April and; 2) the spring/summer season from May to August.

In 2018, the ASHL generated revenue of $27.4 million compared to $27.1 million in 2017, which represents an increase of $0.3 million or 1.2%. The increase was principally due to pricing.

The ASHL experiences competition from other league and rink operators, but management continues to focus on enhancing the experience of players, whether it be the team administration process, game play, playoff formats, or post-game social networking. This is critical to maintaining our position as leaders in the adult recreation hockey market.

The Youth Hockey League and 3 on 3

In addition to the ASHL, Canlan also operates a variety of youth leagues in the spring and summer seasons. These leagues are designed for minor hockey players who wish to continue playing after the regular fall/winter season ends. We offer both the traditional "5 on 5" formats as well as a "3 on 3" league for those players looking for more speed in the game.

In the U.S. locations, our facilities are associated with minor hockey organizations in their local communities and revenues are earned from a combination of ice rentals to minor hockey associations, and registration fees for youth hockey teams and programs that we operate internally.

Youth hockey league revenue of $3.6 million decreased by $0.3 million or 6.7% compared to 2017 mainly due to increased competition and demographic shifts in certain regions.

Canlan Camps, Hockey and Skating Academies

Canlan offers a variety of developmental programs through our branded Canlan Camps and Hockey and Skating Academies. Canlan Camps operate primarily in the summer months directed at the youth market, with a focus on hockey skills development and fun activity in various other sports.

Hockey and Skating Academies for adult and youth operate throughout the year and weekly classes are held to teach everything from learn-to-skate and figure skating, to power skating and team tactics. The growth opportunities of these programs are concentrated in the summer season when ice inventory is available and the youth population is generally not in school.

In 2018, these programs generated $8.0 million in gross revenue; an increase of $0.3 million or 3.3% from 2017 mainly due to pricing.

Tournaments

Tournament revenue of $3.3 million increased by $0.3 million or 8.2% compared to 2017 mainly due to strong summer season with higher participation numbers. Canlan runs a high-volume in-house tournament business that reduces our reliance on third party tournament operators during the summer and shoulder seasons. While the majority of our tournaments are held in Canlan facilities, which increase our ice utilization, we also hold a number of destination tournaments in third party arenas to add variation to our product offerings.

Contract Ice, Field and Court Rentals

After providing the necessary allocation of ice, field and court times to operate our in-house programs, we rent ice, fields and courts to third parties. Ice, field and court time are used by private groups, minor hockey associations, third party tournaments and camp operators as well as some adult leagues. Overall, third party contracts accounted for $19.4 million in 2018; an increase of $0.2 million or 1.3% from $19.2 million in 2017 mainly due to increased volume and pricing.

Soccer

Canlan operates five indoor soccer fields: one in Burnaby, B.C., one in Winnipeg, Manitoba, two in Mississauga, Ontario, and one FIFA-sized field divisible into four fields in Lake Barrington, Illinois. Total soccer revenue of $3.1 million in 2018 increased by $0.4 million or 14.9% from 2017 mainly due to pricing and higher registrations in adult and youth indoor soccer leagues.

Similar to the ASHL on ice, a significant portion of prime-time utilization of these synthetic turf fields is comprised of indoor soccer leagues, branded the “AISL”. In addition, we have secured field rental contracts with large youth and adult soccer associations that utilize prime and off-prime field times.

Revenue generated from activity on our ice rinks and soccer fields are broken down as follows:

	2018		2017	
in thousands	**Revenue**	**% of total**	Revenue	% of total
Adult hockey leagues	**$ 27,427**	**40**	$ 27,103	40
3rd party contract users	**19,392**	**28**	19,153	28
Camps, hockey & skating schools	**7,989**	**11**	7,737	11
Youth hockey leagues	**3,596**	**5**	3,854	6
Public programs & spot rentals	**3,396**	**5**	3,333	5
Tournaments	**3,346**	**5**	3,091	5
Soccer field rentals and leagues	**3,116**	**5**	2,713	4
Other	**746**	**1**	674	1
	$ 69,008	**100**	$ 67,658	100

Food & Beverage (F&B)

Revenue from our 17 restaurant and concession operations was $13.1 million in 2018, increased by $0.8 million or 6.5% from 2017.

Most of our food and beverage establishments are licensed and we operate all our restaurants in-house to ensure our customers receive quality products and service. The main drivers for F&B revenue are adult league players and tournament traffic that play in our venues. Accordingly, increases in tournament traffic and the roll out of a new restaurant menu contributed to the F&B revenue growth during 2018.

Management continues to focus on menu offerings, pricing, and loyalty and promotional programs to improve the customer experience in our restaurants.

Food and beverage sales accounted for 15% of total revenue which is consistent with 2017.

Sports Stores

During the year, Canlan operated seven sports stores that sell equipment, apparel, and skate sharpening services in our buildings. The Company rents retail space to third party store operators under long term leases in another six facilities. Our seven sports stores generated $1.8 million in gross sales in 2018, which decreased by $0.2 million or 9.3% compared to 2017 mainly due to lighter hockey league traffic and the outsourcing of one of our sports stores during the second half of 2017. Sports store revenue represents 2% of total revenue. Skate sharpening revenue was $0.5 million, unchanged from 2017.

Management Contracts

Management services revenue is comprised of fees for managing recreation facilities on behalf of owners and one-time consulting engagements. Management fee revenue of $0.3 million remained consistent with 2017. The Company is currently involved in two management contracts in British Columbia, and one management contract in Alberta which has an income sharing arrangement with the municipality.

Sponsorship and Space Rental

In many facilities, we rent space to complimentary types of businesses and we also sell advertising space to third party sponsors as ancillary sources of revenue. Sponsorship and space rental revenue of $2.8 million rose by $0.2 million or 8.6%, mainly due to higher sponsorship sales.

Other Revenue

Other revenue of $0.7 million in 2018 remained steady with 2017. Other revenue includes commissions received on vending machines plus fees Canlan earns from the registration and operation of affiliate adult recreation hockey leagues across Canada. These affiliate leagues are not part of the ASHL but are members of Canlan's Adult Safe Hockey Network.

Revenue by business segment and geographic region are as follows:

		2018			2017	
in thousands		**Sales**	**% of total**		Sales	% of total
Ice and Field Sales	**$**	**69,008**	**79**	$	67,658	79
Food and Beverage		**13,116**	**15**		12,317	14
Sports Store		**1,782**	**2**		1,965	2
Sponsorship		**1,383**	**1**		1,258	2
Space Rental		**1,408**	**2**		1,311	2
Management & Consulting Fees		**258**	**-**		262	-
Other		**683**	**1**		640	1
	$	**87,638**	**100**	$	85,411	100

		2018			2017	
in thousands		**Sales**	**% of total**		Sales	% of total
Canada:						
British Columbia	**$**	**18,443**	**21**	$	18,112	21
Alberta		**1,901**	**2**		1,662	2
Saskatchewan		**7,203**	**8**		7,038	8
Manitoba		**4,809**	**6**		4,509	5
Ontario		**40,536**	**46**		39,463	47
Quebec		**4,447**	**5**		4,477	5
		77,339	**88**		75,261	88
USA		**10,299**	**12**		10,150	12
	$	**87,638**	**100**	$	85,411	100

Revenue by Quarter

The Company recorded the following revenue by quarter in 2018. The revenue stream is somewhat seasonal with 57% of the Company's revenue being generated in the fall and winter months (first and fourth quarters) and 43% in the spring and summer seasons (second and third quarters).

		2018			2017	
in thousands		**Revenue**	**% of total**		Revenue	% of total
Q1	**$**	**25,624**	**29**	$	25,147	30
Q2		**18,943**	**22**		18,616	22
Q3		**18,272**	**21**		17,370	20
Q4		**24,799**	**28**		24,278	28
	$	**87,638**	**100**	$	85,411	100

Direct Operating Costs

Total facility operating costs of $67.2 million in 2018 increased by $0.5 million or 0.7% compared to 2017, mainly due to an increase in repairs and maintenance expenses, partially offset by reduced utility expenses.

Repairs and maintenance expenses increased by $1.2 million or 25.2% compared to 2017 mainly due to increased roof remediation projects in several facilities.

Utility expense decreased by $0.7 million or 9.4% from 2017 mainly due to reduction of electricity consumption directly related to continued energy management initiatives and equipment replacement projects completed in the past several years.

In addition, salary and wage expenses remained relatively stable from 2017 as a result of the implementation of a labour optimization plan.

Facility operating costs are less seasonal than revenue, as our business does have a fixed cost component to it.

		2018			2017	
in thousands		**Costs**	**% of total**		Costs	% of total
Q1	**$**	**16,559**	**25**	$	17,132	26
Q2		**17,119**	**25**		16,869	25
Q3		**15,834**	**24**		15,998	24
Q4		**17,689**	**26**		16,702	25
	$	**67,201**	**100**	$	66,701	100

Operating Margin before General and Administration expenses

Operating margin is calculated as revenue less operating expenses expressed as a percentage of revenue. Operating margin for 2018 increased to 23.3% from 21.9% a year ago.

U.S. Facility Operations

On March 19, 2019, the company completed a purchase of a three-pad ice rink facility in West Dundee, a suburb of Chicago, Illinois. The facility was purchased for US$10.0 million. At the date of this MD&A, the Company's U.S. operations consist of an ice rink facility in Fort Wayne, Indiana, and two ice rink facilities plus a non-ice multi-sport complex in the Greater Chicago area (see **Overview of the Company**).

Overall, U.S. operations have stabilized over the past two years and the focus of the existing facilities is now on revenue growth through strong program execution and cost management through cost and labour efficiencies. The addition to our portfolio is consistent with our strategy to continue expanding our U.S. operations by acquiring ice and turf sport facilities with significant upside potential.

General and Administration (G&A) Expenses

Corporate G&A expenses of $5.8 million decreased by $0.2 million or 2.6% compared to 2017 mainly due to decreased labour costs and professional fees. Minor adjustments to corporate performance-based compensation plans and the corporate staff structure contributed to reduced salary and wages. Professional fees decreased due to lower expenses for consulting engagements compared to the prior year. G&A expense represented 6.6% of total revenue in 2018 compared to 6.9% in 2017.

G&A expenses throughout the year are as follows:

		2018			2017	
in thousands		**Expense**	**% of total**		Expense	% of total
Q1	**$**	**1,483**	**26**	$	1,402	24
Q2		**1,375**	**24**		1,299	22
Q3		**1,332**	**23**		1,144	19
Q4		**1,577**	**27**		2,074	35
	$	**5,767**	**100**	$	5,919	100

EBITDA

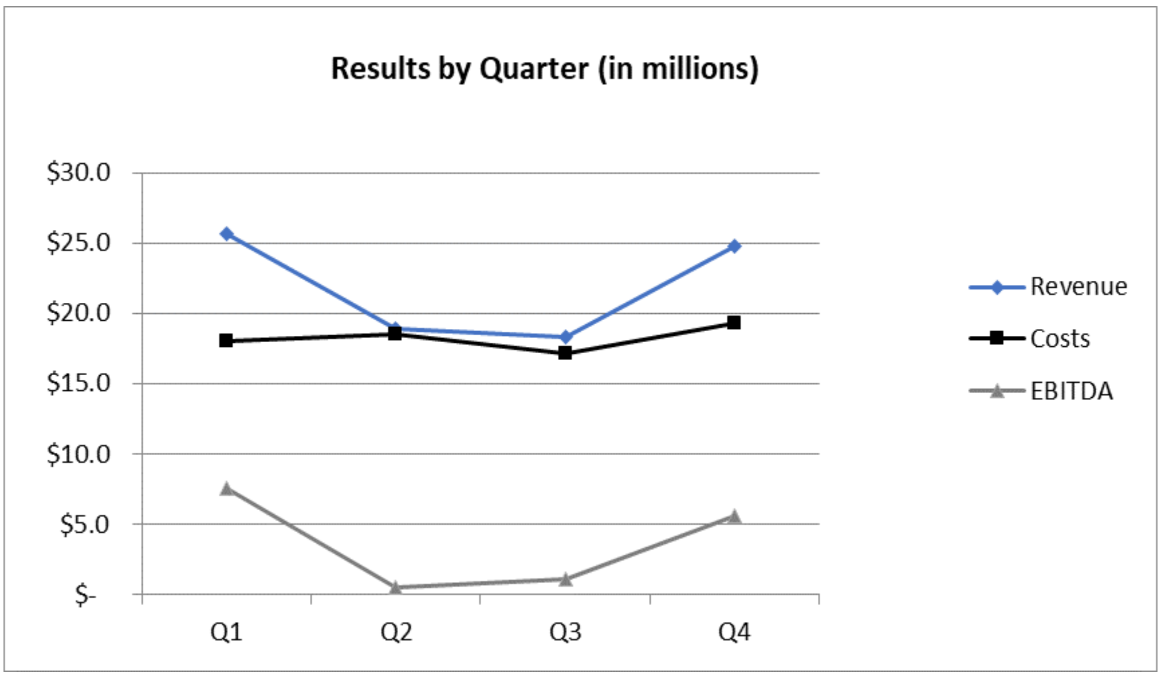
After accounting for facility operating costs of $67.2 million (2017 - $66.7 million) and G&A expenses of $5.8 million (2017 - $5.9 million), EBITDA was $14.7 million; an increase of $1.9 million or 14.7% compared to 2017.

The Company's EBITDA by quarter was as follows:

		2018			2017	
in thousands		**EBITDA**	**% of total**		EBITDA	% of total
Q1	**$**	**7,582**	**52**	$	6,613	52
Q2		**449**	**3**		448	3
Q3		**1,106**	**7**		228	2
Q4		**5,533**	**38**		5,502	43
	$	**14,670**	**100**	$	12,791	100

The seasonality of the Company's EBITDA is a direct result of seasonal revenue stream combined with a cost structure that is relatively fixed.

This trend is illustrated as follows:



Gross Margin

Gross margin is calculated as revenue less operating and G&A expenses, expressed as a percentage of revenue. Gross margin for 2018 was 16.7% compared to 15.0% in 2017.

Non-operating Expenses

Depreciation

Depreciation expense of $6.9 million remained consistent with 2017.

The Company's depreciation policy was unchanged during the year. The policy calls for straight-line depreciation of facility assets over periods ranging from five to forty years.

Finance Income and Costs

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

Net finance costs were $2.2 million compared to $1.1 million a year ago. The unrealized mark-to-market loss on an interest rate swap contract was $0.2 million compared to a gain of $1.0 million in 2017.

A breakdown of our net finance cost is as follows:

in thousands		**2018**		2017
Mortgage interest	**$**	**1,975**	$	1,933
Interest income		**(250)**		(124)
Equipment lease interest		**112**		138
Loss (gain) on interest rate swap		**209**		(1,027)
Amortization of deferred financing costs and other		**202**		170
	$	**2,248**	$	1,090

At year end, the Company had interest bearing, mortgage secured debt totaling $50.8 million (2017 – $53.7 million).

The Company has fixed the interest rate on 65% of its mortgage debt, or $33.4 million at a weighted average rate of 3.52%. Debt with variable interest rates consists of $10.8 million at the Prime rate plus 0.50%, and $6.9 million at CDOR plus 2.10%.

Costs related to debt financing are amortized using the effective interest rate method in accordance with IFRS and classified as interest expense. In 2018, total financing fees expensed was $106,000 compared to $81,000 in 2017.

Net Earnings Before Income Taxes

Net earnings before income taxes was $5.6 million in 2018 compared to $4.7 million in 2017.

Taxes

In 2018, a net tax expense of $1.1 million that comprised of $1.2 million of current tax expense and $0.1 million of deferred tax recovery was recorded.

Each year, management reviews assumptions regarding deferred income tax assets and liabilities to ensure that the reported balances appropriately reflect tax benefits available to offset future income taxes and future reversal of those benefits. The deferred tax assets and liabilities mainly resulted from the timing difference between tax and accounting depreciation, and the timing difference of deferred revenue.

Prior to 2016, U.S. operations incurred losses for tax purposes of approximately $9.0 million that are carried forward and available to offset future taxable income in the United States. The Company is permitted to recognize deferred tax assets to the extent of the amount of taxable income that will be probable in future years. In 2018, the Company recognized $0.2 million (2017 - $0.1 million) of deferred tax benefits based on the Company's estimation of 2018 taxable income and probable taxable income in future years. The remaining losses carried forward have not been recognized as deferred tax assets at December 31, 2018.

Net Earnings

Net earnings after tax for the year ended December 31, 2018 was $4.5 million or $0.34 per share, compared to $3.6 million in 2017 or $0.27 per share.

Foreign Currency Translation and Other Comprehensive Income

Other comprehensive income comprises foreign currency translation adjustments related to the Company's U.S. subsidiaries. Other comprehensive income in 2018 was $1.4 million (2017 – a loss of $0.9 million).

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 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.

Summary of Operations
For the years ended December 31

in thousands	**2018**	2017	2016
Revenue	**$ 87,638**	$ 85,411	$ 83,079
Expenses	**67,201**	66,701	65,717
Earnings from operations	**20,437**	18,710	17,362
General & administration	**5,767**	5,919	5,194
EBITDA	**14,670**	12,791	12,168
Other expenses (income)			
Depreciation	**6,929**	6,951	7,017
Gain on sale of assets	**(10)**	(7)	(21)
Foreign exchange (gain) loss	**(91)**	24	(474)
	6,828	6,968	6,522
Finance costs (income)			
Finance costs	**2,289**	2,241	2,636
Debt retirement fee	**-**	-	2,318
Finance income	**(250)**	(124)	(66)
Loss (gain) on interest rate swap	**209**	(1,027)	(259)
	2,248	1,090	4,629
Net earnings before taxes	**5,594**	4,733	1,017
Income tax expense (recovery)			
Current	**1,194**	779	(347)
Deferred	**(83)**	397	70
	1,111	1,176	(277)
Net earnings	**4,483**	3,557	1,294
Other comprehensive income (loss):			
Items that may be reclassified subsequently to net earnings:			
Foreign currency translation differences	**1,410**	(857)	(390)
Total comprehensive income	**$ 5,893**	$ 2,700	$ 904
Operating margin before general & administration	**23.3%**	21.9%	20.9%
Administration as a percentage of revenue	**6.6%**	6.9%	6.3%
EBITDA as a percentage of revenue	**16.7%**	15.0%	14.6%

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.

	2018				
in thousands	Q1	Q2	Q3	Q4	Total
Gross revenue	$ 25,624	$ 18,943	$ 18,272	$ 24,799	$ 87,638
Operating costs	(16,559)	(17,119)	(15,834)	(17,689)	(67,201)
	9,065	1,824	2,438	7,110	20,437
General & administration	(1,483)	(1,375)	(1,332)	(1,577)	(5,767)
EBITDA	**7,582**	**449**	**1,106**	**5,533**	**14,670**
Depreciation	(1,725)	(1,725)	(1,703)	(1,776)	(6,929)
Finance costs	(516)	(502)	(526)	(495)	(2,039)
Foreign exchange gain (loss)	10	35	(18)	64	91
Gain (loss) on interest rate swap	125	8	228	(570)	(209)
Gain on sale of assets	4	-	1	5	10
Net earnings (loss) before taxes	**5,480**	**(1,735)**	**(912)**	**2,761**	**5,594**
Income taxes	(1,260)	458	188	(497)	(1,111)
Net earnings (loss)	**$ 4,220**	**$ (1,277)**	**$ (724)**	**$ 2,264**	**$ 4,483**
Earnings (loss) per share	**$ 0.32**	**$ (0.10)**	**$ (0.05)**	**$ 0.17**	**$ 0.34**

	2017				
in thousands	Q1	Q2	Q3	Q4	Total
Gross revenue	$ 25,147	$ 18,616	$ 17,370	$ 24,278	$ 85,411
Operating costs	(17,132)	(16,869)	(15,998)	(16,702)	(66,701)
	8,015	1,747	1,372	7,576	18,710
General & administration	(1,402)	(1,299)	(1,144)	(2,074)	(5,919)
EBITDA	**6,613**	**448**	**228**	**5,502**	**12,791**
Depreciation	(1,781)	(1,765)	(1,699)	(1,706)	(6,951)
Finance costs	(537)	(525)	(544)	(511)	(2,117)
Foreign exchange gain (loss)	1	(11)	(17)	3	(24)
Gain (loss) on interest rate swap	(14)	414	542	85	1,027
Gain on sale of assets	-	6	1	-	7
Net earnings (loss) before taxes	**4,282**	**(1,433)**	**(1,489)**	**3,373**	**4,733**
Income taxes	(1,004)	443	324	(939)	(1,176)
Net earnings (loss)	**$ 3,278**	**$ (990)**	**$ (1,165)**	**$ 2,434**	**$ 3,557**
Earnings (loss) per share	**$ 0.25**	**$ (0.07)**	**$ (0.09)**	**$ 0.18**	**$ 0.27**

Review of Fourth Quarter 2018

In Q4, revenue of $24.8 million, increased by $0.5 million or 2.1% compared to prior year. The main drivers of the increase were higher contract revenue, growth in youth and adult soccer leagues, pricing of adult hockey leagues and incremental food & beverage revenue.

Operating cost of $17.7 million, increased by $1.0 million or 5.9% mainly due to higher repairs and maintenance expenses incurred during Q4 2018 compared to prior year.

Operating earnings before G&A expenses was $7.1 million compared to $7.6 million in 2017.

After recording G&A expenses of $1.6 million, EBITDA was $5.5 million consistent with 2017. G&A decreased by $0.5 million or 24.0% principally due to decreased consulting fees related to specific projects in 2017 and reduced performance-based compensation accrued in 2018.

After recording finance costs, depreciation, a gain on foreign exchange, and mark-to-market loss on financial instruments (interest rate swap contract) totaling $2.8 million, net earnings before taxes was $2.8 million compared to $3.4 million in the fourth quarter of 2017. Fluctuations in mark-to-market gains are largely dependent on market interest rate movements.

After income tax, net earnings was $2.3 million or $0.17 per share, compared to $2.4 million or $0.18 per share in 2017. A summary of Q4 results is as follows:

in thousands		**2018**		2017
Gross revenue	**$**	**24,799**	$	24,278
Operating costs		**(17,689)**		(16,702)
		7,110		7,576
General & administration		**(1,577)**		(2,074)
EBITDA		**5,533**		5,502
Depreciation		**(1,776)**		(1,706)
Finance costs		**(495)**		(511)
Gain (loss) on interest rate swap		**(570)**		85
Other		**69**		3
Net earnings before taxes and other		**2,761**		3,373
Income taxes		**(497)**		(939)
Net earnings		**2,264**		2,434
Other comprehensive income		**1,136**		37
Total comprehensive income	**$**	**3,400**	$	2,471
Earnings per share	**$**	**0.17**	$	0.18

Review of Assets

The table below summarizes the Company's asset base:

in thousands		**2018**		2017
Properties	**$**	**99,582**	$	98,596
Cash		**19,845**		18,629
Accounts receivable		**3,361**		3,051
Inventory		**1,099**		1,094
Prepaid expenses and other assets		**1,681**		853
Investment properties		**-**		550
Assets held-for-sale		**596**		-
Financial asset held for trading		**1,077**		1,286
Deferred income taxes		**1,694**		1,661
	$	**128,935**	$	125,720

During the year ended December 31, 2018, the Company invested $6.6 million (2017 - $4.9 million) on capital expenditures related to building improvements and renewal of plant equipment at various facilities. Approximately $0.3 million of the capital expenditures was funded with lease financing. Expenditures undertaken during the year included refrigeration equipment, plant automation systems, ice resurfacing equipment, and installation of energy efficient lighting at various facilities. In addition, a new parking lot was developed at our Saskatoon location.

At December 31, 2018, the total property, plant and equipment balance was $99.6 million compared to $98.6 million in 2017. The increase resulted from current-year additions net of depreciation and foreign currency translation differences that reflected a higher U.S. dollar compared to December 2017.

In January 2019, the Company finalized plans to sell one of its recreation properties. The Company intends to continue facility operations until May 5, 2019 and then close the facility in preparation for an intended sale completion on or before December 31, 2019.

On March 19, 2019, the Company completed the purchase of a recreation facility in Chicago, Illinois for US$10.0 million. The purchase price was financed with a combination of the Company's cash and existing capital expenditure credit facility. See **Review of Liabilities and Shareholders' Equity** below.

Investment properties were reclassified as assets held-for-sale as they are expected to be sold within twelve months.

Cash on hand of $19.8 million at the end of 2018 was higher than 2017 as cash generated from operations increased from 2017.

Cash and cash equivalents include $0.9 million (2017 – $0.9 million) of restricted cash representing funds held in trust in accordance with the terms of a facility operating agreement and a lease agreement with third parties. These funds are maintained as operating and capital expenditure reserves and the balance will change as reserve requirements are adjusted.

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:

in thousands	**2018**	2017
Debt	**$ 50,811**	$ 53,679
Deferred revenue and customer deposits	**12,881**	13,209
Accounts payable	**12,567**	10,105
Finance leases	**1,714**	2,341
Deferred income taxes	**1,138**	1,188
	79,111	80,522
Shareholders' equity	**49,824**	45,198
	$ 128,935	$ 125,720

Interest bearing liabilities, which include debt and finance leases, totaled $52.5 million as at December 31, 2018, compared to $56.0 million as at December 31, 2017. The net decrease of $3.5 million mainly resulted from repayments of debt and finance leases. (see **Review of Liabilities and Shareholders' Equity** – *Mortgages* below).

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

At December 31, 2018, the working capital deficit was $4.0 million compared to $6.2 million at December 31, 2017. This improvement was principally due to an increase of the Company's cash position (see **Review of Assets** above) and lower current debt as certain loans were reclassified as non-current liabilities in 2018 in accordance with debt agreements.

Mortgages

As at December 31, 2018, debt consists of five credit facilities, four of which have been drawn, as follows:

1) $38.5 million loan amortized over 15 years, maturing on May 25, 2023, interest at Prime rate plus 0.50% per annum payable monthly. The Company entered into an interest rate swap contract, maturing on May 25, 2023, to fix the interest rate at 3.52% per annum payable monthly. At December 31, 2018, the balance outstanding was $33.4 million;

2) $10.0 million loan amortized over 15 years, maturing on May 25, 2023, interest at Prime rate plus 0.50% per annum payable monthly. At December 31, 2018, the balance outstanding was $8.7 million;

3) $20.0 million revolving capital expenditure loan amortized over 15 years, maturing on May 25, 2023, interest at Prime rate plus 0.50% per annum. At December 31, 2018, the balance outstanding was $2.1 million;

4) In August 2018, the Company settled two U.S. currency denominated loans totalling $7.0 million with a new credit facility of $7.1 million denominated in Canadian currency. The new $7.1 million loan is amortized over 15 years, maturing on September 30, 2023, interest at CDOR plus 2.1% per annum payable monthly. At December 31, 2018, the balance outstanding was $6.9 million; and

5) $0.7 million demand revolving operating loan, interest at Prime rate plus 0.50% per annum. No amounts have been drawn on this loan to date.

On March 19, 2019, the Company completed the purchase of a recreation facility in Chicago, Illinois for US$10.0 million. The purchase price was financed with a combination of the Company's cash and existing capital expenditure credit facility.

We were in full compliance with debt covenants as at December 31, 2018 and we expect to continue to be in compliance during the coming fiscal year.

Customer Deposits and Deferred Revenue

A large component of our current liabilities is comprised of deferred revenue related to league registrations and customer deposits received in advance which totaled $12.9 million as at December 31, 2018 (2017 - $13.2 million). We recognize revenue as ice or field time is used; many of the seasonal contracts and league registrations are paid in advance.

Finance Leases

Finance lease was used in 2018 to finance the acquisition of equipment used in our facilities such as ice re-surfacers and computer equipment with a term of five years. In 2017, the Company drew on a capital expenditure demand loan to finance some of its heavy equipment (see **Review of Liabilities and Shareholders' Equity** – *Mortgages* above).

Liquidity and Capital Resources

Canlan's cash balance as at December 31, 2018 was $19.8 million compared to $18.6 million from December 31, 2017 mainly due to increased cash generated from operations.

During 2018, we utilized $1.0 million to reduce the principal on finance leases and $1.2 million to pay dividends on common shares. On November 13, 2018, the Company continued its dividend policy and declared a quarterly dividend of $0.025 per share on a record date on December 31, 2018 which was paid on January 16, 2019. In addition, net cash of $3.2 million was utilized for scheduled debt repayments.

Cash utilized for investment activities in 2018 included $5.9 million incurred on facility capital expenditures (see **Review of Assets** above) and $0.4 million related to software development and computer hardware deployed at the corporate offices.

Summarized Statement of Cash Flows:

in thousands		**2018**		2017
Cash inflows and (outflows) by activity				
Operating activities	**$**	**12,820**	$	10,802
Financing activities		**(5,311)**		(3,625)
Investing activities		**(6,293)**		(4,883)
		1,216		2,294
Cash position, beginning of year		**18,629**		16,335
Cash position, end of year	**$**	**19,845**	$	18,629
Key ratios				
Working capital	**$**	**(4,014)**	$	(6,223)
Debt to equity ratio		**1.05:1**		1.24:1

The reduction in our working capital deficiency was mainly due to an increase of the Company's cash position (see **Review of Assets** above) and lower current debt as certain loans were reclassified as non-current liabilities in 2018 in accordance with debt agreements (see Review of **Liabilities and Shareholders' Equity** above). The decrease in the debt to equity ratio at the end of 2018 was mainly due to improved earnings and scheduled debt repayments.

Cash Flow

Our cash position fluctuates during the year as a result of the seasonality of our business. Historically the highest cash position is December and the lowest position occurs in August. We generally collect registration fees for the ASHL in the first three months of each season, and program fees are collected upon registration.

Cash flow from operating activities was $12.6 million in 2018 compared to $10.9 million in 2017. After accounting for additional bank financing, debt repayments, capital expenditures, and dividends paid, cash increased by $1.2 million in 2018.

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

in thousands		**2018**		2017
EBITDA	**$**	**14,670**	$	12,791
Changes in working capital items		**998**		1,010
Net finance costs		**(2,092)**		(2,035)
Income tax expense		**(1,194)**		(779)
Foreign exchange		**188**		(49)
Cash flow from operations		**12,570**		10,938
Less:				
Mortgage principal reduction		**(10,260)**		(3,228)
New debt		**7,100**		1,750
Capital expenditures		**(6,303)**		(4,890)
Equipment lease payments		**(951)**		(1,080)
Dividends paid		**(1,200)**		(1,067)
Net proceeds on sale of assets		**10**		7
Effect of changes in foreign currency rates		**250**		(136)
Change in cash position for the year	**$**	**1,216**	$	2,294

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. The operating leases listed below for land and buildings fit the definition of off-balance sheet financing arrangements.

in thousands	2019	2020	2021	2022	2023	Thereafter	Total
Long-term debt:							
Mortgage principal and interest	$ 5,106	$ 5,087	$ 5,065	$ 5,045	$ 38,409	$ -	$ 58,712
Equipment leases, including interest	864	600	333	73	37	-	1,907
	5,970	5,687	5,398	5,118	38,446	-	60,619
Land and building operating leases (off balance sheet financing)	1,189	936	852	852	794	6,476	11,099
	$ 7,159	**$ 6,623**	**$ 6,250**	**$ 5,970**	**$ 39,240**	**$ 6,476**	**$ 71,718**

Share Capital

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

	2018	2017
Shares issued and outstanding	**13,337,448**	13,337,448
Weighted average number of shares outstanding	**13,337,448**	13,337,448

The Company established a stock appreciation rights (SARs) plan in 2005 and it was renewed in 2016. 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 upon the exercise of rights. The granted SAR's vest in equal installments over a three-year period and expire three years from the grant date.

The Company has outstanding stock appreciation rights as follows:

	Number of Rights at December 31, 2018		
Expiry date	**Outstanding**	**Excercisable**	**Exercise Price**
November 29, 2019	350,502	180,585	$3.34
April 15, 2020	35,000	11,667	$3.85
June 15, 2020	58,333	11,667	$3.74
November 28, 2020	35,000	11,667	$3.96
March 23, 2021	35,000	-	$3.95
September 1, 2021	52,750	-	$4.76
	566,585	215,586	

During the year, 147,416 SARs were exercised at a weighted average exercise price of $3.37.

The liability related to the SARs program is adjusted quarterly based on the fair value of the SARs as estimated using the Black-Scholes pricing model. As at December 31, 2018 the Company recorded a liability in the amount of $0.5 million. For the year ended December 31, 2018, fair value measurement of the SARs liability resulted in net compensation expense of $0.5 million (2017 - $0.2 million) that was recognized in the statement of earnings and comprehensive income.

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 in 2018 and 2017.

The Company paid $0.2 million (2017 - $0.2 million) in directors' fees during 2018.

Financial Instruments

At January 1, 2018, the Company applied the new accounting standard, *IFRS 9 – Financial Instruments: Recognition and Measurement*. The application of IFRS 9 did not have significant effect on the Company's consolidated financial statements and no retrospective adjustments were necessary. See "***Accounting Standards"*** below.

The Company has the following financial instruments:

				2018
	Accounting classification	Fair value level	Carrying Amount	Fair value
Financial assets not measured at fair value:				
Cash and cash equivalents	Amortized cost	2	$19,845	$19,845
Accounts receivable	Amortized cost	2	3,361	3,361
Financial assets measured at fair value:				
Interest rate swap	Financial assets at FVTPL	2	1,077	1,077
Financial liabilities not measured at fair value:				
Accounts payable and accrued liabilities	Amortized cost	2	12,567	12,567
Debt	Amortized cost	2	50,811	49,843

				2017
	Accounting classification	Fair value level	Carrying Amount	Fair value
Financial assets not measured at fair value:				
Cash and cash equivalents	Loans and receivables	2	$18,629	$18,629
Accounts receivable	Loans and receivables	2	3,051	3,051
Financial assets measured at fair value:				
Interest rate swap	Held for trading	2	1,286	1,286
Financial liabilities not measured at fair value:				
Accounts payable and accrued liabilities	Amortized cost	2	10,105	10,105
Debt	Amortized cost	2	53,679	52,226

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.

In June 2016, the Company entered into an interest rate swap agreement (seven-year term) to fix the interest rate on a portion of its debt. The fair value of this derivative instrument has been presented as an interest rate swap on the statement of financial position. Changes in fair value of the instrument are recognized in net earnings. For the year ended December 31, 2018, a loss of $0.2 million (gain of $1.0 million in 2017) was recognized.

The Company does not have held to maturity investments at December 31, 2018. The Company had no “other comprehensive income or loss” transactions related to financial instruments during the year ended December 31, 2018 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, 2018.

Our management has evaluated, under the supervision and with the participation of our CEO and CFO, the design and effectiveness of the Company’s disclosure controls and procedures as at the year ended December 31, 2018. 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, 2018.

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 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.

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 sports leagues to play at the facilities it owns and operates. Due to the nature of the sport, 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:

- 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 and purchases 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. 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