



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

**For the Nine Months Ended September 30, 2018
As of November 13, 2018**

Canlan Ice Sports Corp. Management's Discussion and Analysis

The following management's discussion and analysis (MD&A) summarizes significant factors affecting the financial condition of Canlan Ice Sports Corp. ("Canlan", the "Company", "we" "our" or "us") as at September 30, 2018 and the consolidated operating results for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017. This document should be read in conjunction with our unaudited condensed consolidated interim financial statements for the period ended September 30, 2018, the accompanying notes, and our audited consolidated financial statements for the years ended December 31, 2017 and December 31, 2016. 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 November 13, 2018.

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 – Three Months Ended September 30, 2018

- Revenue of \$18.3 million increased by \$0.9 million or 5.2% compared to 2017;
- Operating expenses of \$15.8 million decreased by \$0.2 million or 1.0%. Savings were achieved through a combination of selling cost efficiencies and continued reduction of utilities consumption through energy management initiatives; and
- EBITDA of \$1.1 million increased by \$0.9 million compared to the prior year.

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 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. 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 currently 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.

Facility Portfolio:

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

	Facilities	Ice Surfaces	Indoor Turf Fields	Courts ^a	Total Playing surfaces
Canada:					
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	2	3	1 ^b	4	8
Indiana	1	3	-	-	3
	3	6	1	4	11
	20	57	5	15	77

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)

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 \$3.83 to \$5.00 range during the nine-month period. The Company has not issued any shares since November 2004.

The Company derives revenue from six primary sources:

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

Selected Financial Information

The following selected consolidated financial information is for the nine months ended and as at September 30, 2018, 2017 and 2016. This data should be read together with the unaudited condensed consolidated interim financial statements for the periods ended September 30, 2018, 2017, and 2016.

Our condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards and are stated in Canadian dollars.

in thousands, except earnings per share (unaudited)

As at and for the nine months ended September 30,	2018	2017	2016
Statement of Operations Data:			
Total revenue ⁽¹⁾	\$ 62,839	\$ 61,133	\$ 59,234
Direct expenses ⁽²⁾	(49,512)	(49,999)	(48,505)
General & administration expenses	(4,190)	(3,845)	(3,858)
EBITDA	9,137	7,289	6,871
Other expenses:			
Depreciation	(5,153)	(5,245)	(5,217)
Finance costs	(1,544)	(1,606)	(4,354)
Foreign exchange gain (loss)	27	(27)	466
Gain (loss) on interest rate swap	361	942	(797)
Gain on sale of assets	5	7	21
Income tax (expense) recovery	(614)	(237)	2,067
Net earnings (loss)	\$ 2,219	\$ 1,123	\$ (943)
Other comprehensive income (loss)	274	(894)	(671)
Total comprehensive income (loss)	\$ 2,493	\$ 229	\$ (1,614)
Basic and fully diluted earnings (loss) per share	\$ 0.17	\$ 0.08	\$ (0.07)
Balance Sheet Data:			
Cash and cash equivalents	\$ 15,961	\$ 14,090	\$ 11,511
Current assets (excluding cash)	5,245	5,939	4,485
Capital assets	99,425	99,199	102,334
Other assets	3,778	2,334	3,180
Total assets	\$ 124,409	\$ 121,562	\$ 121,510
Current liabilities, excluding debt	\$ 22,804	\$ 20,229	\$ 20,080
Mortgage debt	51,575	54,435	55,668
Equipment leases	1,937	2,578	3,713
Deferred tax liabilities	1,336	1,326	735
Total liabilities	77,652	78,568	80,196
Shareholders's equity	46,757	42,994	41,314
	\$ 124,409	\$ 121,562	\$ 121,510
Dividends declared	\$ 934	\$ 800	\$ 800

(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.

Review of Operations – Three months ended September 30, 2018

Comparative Results

Total revenue of \$18.3 million increased by \$0.9 million or 5.2% compared to 2017 due to growth in ice and restaurant sales.

Contract ice rentals, strong summer youth programs, and Canlan's tournament division (CCT) were the main contributors to the increase in ice sales. The company's new restaurant branding and menu offerings, coupled with increased tournament and programs participation numbers augmented restaurant revenue.

Other revenue from sports store sales, sponsorship, space rental, vending, and management fees remained steady compared to 2017.

Facility expenses include all costs directly related to the operations of our recreation properties. Total direct operating costs of \$15.8 million decreased moderately by \$0.2 million or 1.0% compared to 2017 mainly due to increased energy efficiencies and reduced selling costs.

Corporate general and administration (G&A) costs of \$1.3 million increased by \$0.2 million or 16.4% compared to prior year mainly due to mark-to-market adjustments required to account for valuation increases in the Company's stock-based compensation program. Included in corporate general and administration are costs related to management support services provided to all facilities (including accounting, marketing, operations, IT support, and human resources).

EBITDA of \$1.1 million increased by \$0.9 million compared to 2017.

Total interest expense of \$0.6 million relating to our term debt and finance leases remained steady with the same period in 2017. Canlan has fixed the interest rate at 3.52% on 65% of its term debt with an interest rate swap contract. The quarterly mark-to-market gain on the swap contract was \$0.2 million for 2018 compared to a \$0.5 million in 2017.

After recording depreciation of \$1.7 million and income tax recovery of \$0.2 million, net loss for the quarter was \$0.7 million or \$0.05 per share compared to a net loss of \$1.2 million or \$0.09 per share a year ago.

Review of Operations – Nine months ended September 30, 2018

Comparative Results

Total revenue of \$62.8 million increased by \$1.7 million or 2.8% compared to the prior year.

Revenue by business segment:

in thousands

Nine months ended September 30	2018	2017
Ice and field sales	\$ 49,479	\$ 48,425
Food and beverage	9,429	8,882
Sports store	1,266	1,402
Space rental	1,046	958
Sponsorship	972	857
Management and consulting fees	198	203
Other	449	406
Total revenue	\$ 62,839	\$ 61,133

Total ice and field revenue of \$49.5 million increased by \$1.1 million or 2.2% compared to the prior year. The increase resulted from pricing, strong sales growth in programs and tournament registrations, offset by reductions in participation in our adult and spring youth hockey leagues in certain markets.

Food & beverage revenue of \$9.4 million increased by \$0.5 million or 6.2% compared to prior year mainly due to increased tournament traffic and the roll out of a new restaurant menu. We continue to see positive results from our refreshed branding.

Thirteen of Canlan's facilities contain sports stores (seven are owned by the Company and six are outsourced to third-party tenants). During the period, sales from the seven owned stores of \$1.3 million decreased by \$0.1 million or 9.7% 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.

Also included in total revenue are sponsorship, space rental, vending, management fees and revenue from Canlan's Adult Safe Hockey Network. Revenue from these sources of \$2.7 million increased by \$0.2 million or 9.9% compared to prior year mainly due to higher sponsorship sales and additional revenue from registrations in the ASHL North America Championships, which runs every second year.

Facility expenses include all costs directly related to the operations of our recreation properties. Total direct operating costs of \$49.5 million decreased by \$0.5 million or 1.0% compared to prior year. The decrease is mainly attributable to lower utilities expenses that resulted from the Company's energy management initiatives completed over the past few years and overall efficiencies achieved in labour structure and marketing costs.

Corporate G&A costs of \$4.2 million increased by \$0.3 million or 9.0% compared prior year mainly due to mark-to-market adjustments required to account for valuation increases in the Company's stock-based compensation program. Included in corporate general and administration are costs related to management support services provided to all facilities including accounting, marketing, operations, IT support, and human resources.

EBITDA of \$9.1 million increased by \$1.8 million or 25.4% compared to prior year.

Total interest expense of \$1.7 million relating to our term debt and finance leases remained steady with prior year. Also included in finance costs was an unrealized valuation gain of \$0.4 million (2017 – \$0.9 million) relating to an interest rate swap contract to fix the interest rate on a portion of the debt.

After recording depreciation of \$5.2 million and income tax expense of \$0.6 million, net income for the period was \$2.2 million or \$0.17 per share, compared to \$1.1 million or \$0.08 per share a year ago.

Earnings by Quarter

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

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

	2018			2017				2016
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Gross revenue	\$ 18,272	\$ 18,943	\$ 25,624	\$ 24,278	\$ 17,370	\$ 18,616	\$ 25,147	\$ 23,845
Operating costs	(15,834)	(17,119)	(16,559)	(16,702)	(15,998)	(16,869)	(17,132)	(17,212)
	2,438	1,824	9,065	7,576	1,372	1,747	8,015	6,633
General & administration	(1,332)	(1,375)	(1,483)	(2,074)	(1,144)	(1,299)	(1,402)	(1,336)
EBITDA	1,106	449	7,582	5,502	228	448	6,613	5,297
Depreciation	(1,703)	(1,725)	(1,725)	(1,706)	(1,699)	(1,765)	(1,781)	(1,800)
Finance costs	(526)	(502)	(516)	(511)	(544)	(525)	(537)	(534)
Foreign exchange gain (loss)	(18)	35	10	3	(17)	(11)	1	8
Gain (loss) on interest rate swap	228	8	125	85	542	414	(14)	1,056
Other	1	-	4	-	1	6	-	-
Net earnings (loss) before taxes	(912)	(1,735)	5,480	3,373	(1,489)	(1,433)	4,282	4,027
Income taxes	188	458	(1,260)	(939)	324	443	(1,004)	(1,790)
Net earnings (loss)	\$ (724)	\$ (1,277)	\$ 4,220	\$ 2,434	\$ (1,165)	\$ (990)	\$ 3,278	\$ 2,237
Earnings (loss) per share	\$ (0.05)	\$ (0.10)	\$ 0.32	\$ 0.18	\$ (0.09)	\$ (0.07)	\$ 0.25	\$ 0.17

Review of Assets

The table below summarizes the Company's asset base:

<i>in thousands</i>	September 30, 2018	December 31, 2017
Properties	\$ 98,868	\$ 98,596
Cash	15,961	18,629
Accounts receivable	2,802	3,051
Prepaid expenses and other assets	1,736	853
Inventory	1,090	1,094
Investment properties	557	550
Interest rate swap	1,647	1,286
Deferred income taxes	1,748	1,661
	\$ 124,409	\$ 125,720

During the nine months ended September 30, 2018, the Company invested \$4.8 million (2017 - \$3.3 million) on capital expenditures principally related to the development of a new parking lot at our Saskatoon location, refrigeration equipment, plant automation/optimization software, and ice resurfacing equipment. Lease financing of \$0.3 million was used to purchase the ice resurfacing 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>	September 30, 2018	December 31, 2017
Debt	\$ 51,575	\$ 53,679
Accounts payable	10,916	10,105
Deferred revenue and customer deposits	11,888	13,209
Finance leases	1,937	2,341
Deferred income taxes	1,336	1,188
	77,652	80,522
Shareholders' equity	46,757	45,198
	\$ 124,409	\$ 125,720

Interest bearing liabilities, which include debt and capital leases, totaled \$53.5 million as at September 30, 2018, compared to \$56.0 million as at December 31, 2017. The net decrease of \$2.5 million resulted from scheduled debt and lease repayments partially offset by a new finance lease of \$0.3 million.

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

At September 30, 2018, working capital deficit was \$5.6 million compared to \$6.2 million at December 31, 2017.

Debt

As at September 30, 2018, debt consists of six 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 September 30, 2018, the balance outstanding was \$33.9 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 September 30, 2018, the balance outstanding was \$8.9 million;
- 3) \$20.0 million committed revolving capital expenditure loan amortized over 15 years, maturing on May 25, 2023, interest at Prime rate plus 0.50% per annum. At September 30, 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 23, 2023, interest at CDOR plus 2.1% per annum payable monthly. At September 30, 2018, the balance outstanding was \$7.1 million;
- 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; and
- 6) \$3.3 million seasonal demand revolving operating loan, interest at Prime rate plus 0.50% per annum. Draws from this operating loan are made available from June 1, 2018 and amounts drawn shall be repaid by November 30, 2018. This loan matures on November 30, 2018. No amounts have been drawn on this loan to date.

The Company was in compliance with all debt covenants as at September 30, 2018 and we expect to continue to be in compliance during the remainder of 2018.

Liquidity and Capital Resources

The Company's debt to equity ratio was 1.14:1 at the end of the third quarter, compared to 1.24:1 at December 31, 2017. The ratio has improved mainly due to normal principal repayments and the increase in equity from income earned in the first three quarters of 2018.

During the first nine months of the year, cash provided by operations was \$5.8 million compared to \$3.6 million a year ago. The increase was principally due to stronger operating earnings during the first nine months of 2018 and an improved position of non-cash working capital items.

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

in thousands

Nine months ended September 30	2018	2017
EBITDA	\$ 9,137	\$ 7,289
Changes in working capital items	(1,170)	(2,061)
Net interest expense	(1,622)	(1,545)
Income tax effect included in changes in working capital	(553)	(100)
Unrealized foreign currency loss	42	(28)
Cash flow from operations	\$ 5,834	\$ 3,555

During the nine months ended September 30, 2018, the Company utilized \$3.1 million to make schedule debt and lease repayments, \$4.5 million, net of financing, to invest in capital expenditures, and paid dividends of \$0.9 million. In addition, the Company settled two U.S. currency denominated loans totaling \$7.0 million with a new credit facility of \$7.1 million denominated in Canadian currency. A quarterly dividend of \$0.3 million was also announced to shareholders of record on September 28, 2018 that was paid on October 16, 2018.

The Company's cash position at September 30, 2018 was \$16.0 million, a decrease of \$2.7 million from December 31, 2017, but an increase of \$1.9 million compared to September 30, 2017.

in thousands

Nine months ended September 30	2018	2017
Cash provided by (used in):		
Operations	\$ 5,834	\$ 3,555
Financing	(3,098)	(1,505)
Investing	(4,628)	(3,349)
Foreign currency change	91	(146)
Dividends paid	(867)	(800)
Net cash flow	\$ (2,668)	\$ (2,245)

Share Capital

The total and weighted average number of shares issued and outstanding at September 30, 2018 and December 31, 2017 was 13,337,448.

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 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 grant date, upon the exercise of rights. The granted SARs vest in equal installments over a three-year period and expire in three years from the grant date.

During the period, 82,917 SARs were exercised with a weighted average exercise price of \$3.39.

As at September 30, 2018, 631,084 stock appreciation rights were outstanding with a weighted average exercise price of \$3.59. Of these rights, 98,499 rights are vested and exercisable with a weighted average exercise price of \$3.45 as at September 30, 2018.

During the nine months ended September 30, 2018, stock-based compensation expense of \$0.4 million (2017 – \$0.1 million) 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 75.5% of the outstanding shares. Bartrac's ownership position in TSX: ICE has remained unchanged since November 2004.

The Company did not record any related party transactions with Bartrac during the period.

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:

- Cash and cash equivalents and accounts receivable are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, cash and cash equivalents and accounts receivable are measured at amortized cost using the effective interest method, less any impairment losses.
- Non-derivative financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Non-derivative financial liabilities comprise of accounts payable and accrued liabilities, obligations under finance leases and debt.
- Assets measured at fair value through profit and loss (FVPTL) are measured at the fair value at the balance sheet date with any gain or loss recognized immediately in net earnings. 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 on ice rinks. The fair value of the instrument has been presented as interest rate swap on the statement of financial position. At September 30, 2018, the fair value was \$1.6 million. Changes in the fair value of the instrument are recognized in net earnings. For the nine months ended September 30, 2018, a gain of \$0.4 million was recognized as part of finance costs.
- 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 to maturity investments at September 30, 2018. The Company had no "other comprehensive income or loss" transactions related to financial instruments during the nine months ended September 30, 2018 and no opening or

closing balances for accumulated other comprehensive income or loss related to financial instruments.

Note that the Company applied the new accounting standards, *IFRS 9 – Financial Instruments*, to account for financial instruments starting January 1, 2018. The application of the new standards did not have significant effect on the Company's consolidated financial statements and no retrospective adjustments were necessary. See "**Accounting Standards**" below.

Critical Accounting Policies and Estimates

Canlan's significant accounting policies are described in Note 3 to our audited consolidated financial statements for the year ended December 31, 2017 and December 31, 2016, and Note 3 to our condensed consolidated interim financial statements for the period ended September 30, 2018. 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 sport surface rental contracts, programs and leagues is recognized over time as games and lessons are played. Deferred revenue relates to amounts received in advance for the Company's adult recreational leagues. 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.

Note that the Company applied the new accounting standards, *IFRS 15 – Revenue from Contracts with Customers*, to account for revenue starting January 1, 2018. The application of the new standards did not have significant effect on the Company's consolidated financial statements and no retrospective adjustments were necessary. See "**Accounting Standards**" below.

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 79% 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 is 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 September 30, 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 period ended September 30, 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 September 30, 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 the Canadian dollar. The Company does not currently enter into forward contracts to mitigate this risk. However, management currently expects that earnings from U.S. business activities are adequate to service operating costs, 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-U.S. foreign exchange rate and could utilize hedging instruments if cash required to fund U.S. operations exceeds cash flows generated from U.S. facilities. In addition, a reasonable amount of U.S. currency is maintained on hand to meet operating needs.

Seasonality of Operations

The Company's business cycle is highly seasonal with 58% of total revenues and virtually all the operating profit being generated in the first and last quarters. This seasonality of operations impacts reported quarterly earnings. The operating results for any particular quarter is not necessarily a good indicator of operating results for the other fiscal quarters or the entire fiscal year. As a result of the seasonality, the highest cash flow period for the Company is in the fourth quarter when customer deposits for future ice contracts are received, and the lowest cash flow is in the summer months, when traffic is reduced.

Mitigating factors and strategies:

- Various programs are developed to increase traffic during the summer period.
- Variable operating costs are reduced during the summer period.
- Seasonal credit line has been made available by the Company's lender.

Competition

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

Mitigating factors and strategies:

- Canlan has developed customer loyalty by providing superior customer service and facilities.
- The ice rink industry is capital intensive with high start up expenses; therefore, barriers to enter the business exist.
- We have developed expertise in all aspects of the ice rink development and multi-sport complex operations.

Employee and Union Relations

The Company has unionized employees at four of its facilities. The presence of a unionized work force increases the possibility that a labour dispute will affect operations at a facility. One collective agreement that matured in October 2018, is expected to be re-negotiated in early 2019, and three other union agreements will expire in March 2020, November 2020 and February 2021. 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

Electricity, natural gas and water are significant components of operating costs of our facilities and the Company is susceptible to fluctuations in the market price of energy

and related regulatory charges. In addition, the Company may experience power fluctuations or outages or cannot maintain adequate sources of natural gas and water. These factors may have a material adverse effect on the Company's business, financial conditions, results of operations and cash flows.

Mitigating factors and strategies:

- If deemed appropriate, the Company enters into medium-term energy contracts to mitigate the price fluctuations of gas and electricity.
- The Company carefully manages utility consumption through standard operating procedures and capital asset program.
- The Company has implemented an equipment replacement program, which utilizes newer technology for lights and refrigeration equipment.
- The Company has hired a full-time energy manager.

Interest Rate Risk

Debt of \$18.0 million is subject to variable interest rates. For every 1% change in base market rates, interest expense will change by \$180,000 per annum.

Mitigating factors and strategies:

- The Company has fixed the interest rate on \$33.9 million or 65% of its loans.

Control by Principal Shareholder and Liquidity of Common Shares

The principal shareholder, Bartrac Investments Ltd. holds 10,075,947 Common Shares and controls approximately 75.5% of the aggregate voting 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. In addition, at the date of this MD&A, a Trust in the U.S. holds 2,265,900 Common shares, which represents 17.0% of total outstanding Common Shares. Such concentration of ownership could also have the effect of delaying, deterring, or preventing a change of control of the Company that might otherwise be beneficial to its shareholders and may also discourage acquisition bids for the Company and limit the amount certain investors may be willing to pay for the Common Shares.

Accounting Standards

Accounting Standards adopted in 2018

Effective January 1, 2018, the Company has adopted IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*. Changes to the Company's accounting policies, which are also expected to be reflected in the Company's annual consolidated financial statements as at and for the year ending December 31, 2018, are described below. There was no material impact to the Company's consolidated financial statements upon adoption of these new standards.

(a) IFRS 15 - *Revenue from Contracts with Customers*:

IFRS 15 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers and replaces the existing revenue recognition standards in IFRS. A five-step model is utilized to achieve the core principle: (1) identify the customer contract; (2) identify the contract's performance obligation; (3) determine the transaction price; (4) allocate the transaction price to the performance obligation; and (5) recognize revenue when or as a performance obligation is satisfied. New disclosures are also required.

IFRS 15 was adopted using the cumulative effect method whereby the cumulative effect of the change determined by applying the principles and practices in IFRS 15 for contracts that are incomplete on the date of adoption, if any, is recognized in deficit at January 1, 2018. There was no cumulative effect adjustment required to be recognized at January 1, 2018 to recognize the impact of applying the new revenue standard. The comparative information has not been adjusted and continues to be reported under the accounting standards in effect for those periods.

There was also no material impact on recognized revenue in the period ended September 30, 2018 from the adoption of the new revenue standard.

Certain additional disclosures are required under the new revenue standard to be made in the Company's annual financial statements.

The Company's revised revenue recognition accounting policy is provided below. These revised accounting policies had no significant effect on revenue recognition in any of the revenue sources below.

The Company evaluates all contractual arrangements it enters into and evaluates the nature of the promises it makes, and its rights and obligations under the arrangement, in determining the nature of its performance obligations. Where such performance obligations are concluded to be distinct from each other the consideration the Company expects to be entitled under the arrangement is allocated to each performance obligation based on its relative estimated stand-alone selling price. Performance obligations that are concluded not to be distinct are combined together into a single unit of account. Revenue is recognized at an amount equal to the transaction price allocated to the specific performance obligation as it is satisfied.

The Company's arrangements include some or all of the following sources of revenue:

- i) *Ice and field sales*
 - Sports league - Customers obtain the benefits of sport leagues service as league games are played (which are scheduled and provided by the Company) over the course of a league season. Revenue is recognized over time as games are played. Invoices are payable during each league season in accordance with a payment schedule with non-refundable deposits paid in advance.
 - Instructional sports programs - Customers obtain the benefits of programs service as they attend each session of the instructional programs provided by the Company. Revenue is recognized over time as program sessions are completed. Invoices are payable at the time of program registration.
- ii) *Food and beverage* – Customers obtain the benefits of the food and beverage as they receive their orders. Revenue is recognized and amounts are payable at the point when the customers' orders are delivered.
- iii) *Sports store* - Customers obtain control of the product at the time of purchase. Revenue is recognized at the point when the customers purchase the product in store. Customers pay at the time of purchase.
- iv) *Sponsorship* - Customers obtain the benefits of sponsorship and advertising services as sponsorship and advertising material are displayed on and in the Company's digital and physical assets and as promotional events occur. Advertisements are displayed or presented during the contractual period through the duration of the sponsorship campaign and revenue is recognized over time during the contractual period. The duration of each sponsorship campaign is one year or less. Invoices are payable during each sponsorship campaign in accordance with contractual payment terms.
- v) *Space rental* - Tenants obtain the benefits as they use the space provided by the Company. Revenue is recognized over time as the space is being used by the tenants. Invoices are payable at the beginning of each month.
- vi) *Management and consulting fees* - Customers obtain the benefits as the Company provides management/consulting service. Revenue is recognized over time as the management/consulting services are provided. Invoices are payable at the beginning of each month.

(b) IFRS 9 – *Financial Instruments*:

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*, and changes the classification and measurement of financial assets and financial liabilities, the rules and requirements relating to hedge accounting, as well as the introduction of an “expected credit loss” model for the impairment of financial assets.

The adoption of this standard had no significant effect on the consolidated financial statements of the Company and no retrospective adjustments were required.

Financial assets previously classified as loans and receivables (cash and cash equivalents and accounts receivable), as well as financial liabilities previously classified as other financial liabilities (accounts payable and accrued liabilities, and debt) have been reclassified as amortized cost. The carrying value and measurement of the Company’s financial instruments at amortized cost remains unchanged. The Company’s current process for assessing short-term receivables’ lifetime expected credit losses collectively in groups that share similar credit risk characteristics is unadjusted with the adoption of the new impairment model and resulted in no additional impairment allowance.

Financial assets previously classified as held for trading (interest rate swap) have been reclassified as assets measured at fair value through profit and loss (FVPTL). The carrying value and measurement of the Company’s financial instruments at FVTPL remain at fair value and changes in fair value during each reporting period are recognized through profit and loss.

Future Accounting Standards

IFRS 16 - *Leases* was issued in January 2016 and sets out a new model for lease accounting, replacing IAS 17 - *Leases*. IFRS 16 will be effective for accounting periods beginning on or after January 1, 2019. The Company is currently assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

Ivan Wu
Chief Financial Officer