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

For the Nine Months Ended September 30, 2019
As of November 13, 2019

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, 2019 and the consolidated operating results for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. This document should be read in conjunction with our unaudited condensed consolidated interim financial statements for the period ended September 30, 2019, the accompanying notes, and our audited consolidated financial statements for the years ended December 31, 2018 and December 31, 2017. 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, 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.

Same Store Analysis and Adoption of IFRS 16

On March 19, 2019, Canlan completed the purchase of an ice rink facility in Chicago, Illinois. The facility, called Ice Sports West Dundee, commenced operations as a Canlan facility in March 2019 (See "***Review of Assets***" below). On May 5, 2019, the Company's recreation facility located in Montreal, Quebec was closed and marketed for sale. This MD&A will refer to "same store" results, which excludes the results of these two facilities.

On January 1, 2019, the Company adopted IFRS 16 – ***Leases*** using the modified retrospective approach (see "***Accounting Standards***" below). Therefore, the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. As a result, facility lease payments were presented as part of "Facility Expenses" in 2018 but not in 2019. In addition, interest costs implicit in these leases was included in finance costs in 2019. This MD&A will refer to changes of "adoption of IFRS 16", which excludes the effects of the change in presentation.

Overview – Three Months Ended September 30, 2019

- Same store revenue of $17.9 million increased by $0.6 million or 3.7% compared to 2018;
- Same store EBITDA of $0.8 million decreased by $0.5 million compared to prior year after excluding the effects of presentation changes related to adoption of IFRS 16;
- On August 20, 2019, the Company sold one recreation property located in Fort Wayne, Indiana, for proceeds of US$6.0 million and a gain of US$0.8 million; and
- Post-acquisition capital projects of $2.1 million to upgrade equipment, locker rooms, and offices were substantially completed at Ice Sports West Dundee and the facility was ready to begin the fall/winter minor and adult rec hockey season under the Canlan banner in September 2019.

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 159 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:

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 [c]	-	-	-	-
	17	**47**	**4**	**11**	**62**
USA:					
Illinois	3	6	1 [b]	4	11
	20	**53**	**5**	**15**	**73**

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) This facility was closed as of May 2019 in preparation for an intended sale. Assets related to this facility were reclassified to asset held-for-sale.

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 $5.34 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, 2019, 2018 and 2017. This data should be read together with the unaudited condensed consolidated interim financial statements for the periods ended September 30, 2019, 2018, and 2017.

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,	**2019**	**2018**	**2017**
Statement of Operations Data:			
Total revenue [1]	**$ 64,384**	$ 62,839	$ 61,133
Direct expenses [2]	**(51,506)**	(49,512)	(49,999)
General & administration expenses	**(4,134)**	(4,190)	(3,845)
EBITDA	**8,744**	9,137	7,289
Other expenses:			
Depreciation	**(5,966)**	(5,153)	(5,245)
Finance costs	**(1,943)**	(1,544)	(1,606)
Foreign exchange gain (loss)	**(30)**	27	(27)
Gain (loss) on interest rate swap	**(680)**	361	942
Gain on sale of assets	**1,601**	5	7
Income tax expense	**(68)**	(614)	(237)
Net earnings	**$ 1,658**	$ 2,219	$ 1,123
Other comprehensive income (loss)	**(787)**	274	(894)
Total comprehensive income	**$ 871**	$ 2,493	$ 229
Basic and fully diluted earnings per share	**$ 0.12**	$ 0.17	$ 0.08
Balance Sheet Data:			
Cash and cash equivalents	**$ 14,681**	$ 15,961	$ 14,090
Current assets (excluding cash and loan receivable)	**5,775**	5,245	5,939
Loan receivable	**2,577**	-	-
Capital assets	**105,201**	99,425	99,199
Assets held-for-sale	**6,405**	-	-
Other assets	**4,929**	3,778	2,334
Total assets	**$ 139,568**	$ 124,409	$ 121,562
Current liabilities, excluding debt	**$ 21,821**	$ 22,804	$ 20,229
Mortgage debt	**59,195**	51,575	54,435
Leases - right-of-use assets	**7,427**	1,937	2,578
Deferred tax liabilities	**2,447**	1,336	1,326
Total liabilities	**90,890**	77,652	78,568
Shareholders's equity	**48,678**	46,757	42,994
	$ 139,568	$ 124,409	$ 121,562
Dividends declared	**$ 1,034**	$ 934	$ 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, 2019

Comparative Results

Total revenue of $18.6 million increased by $0.3 million or 1.8% compared to 2018; same store revenue increased by $0.6 million or 3.7%.

Contributing to sales growth were Canlan's tournament division (CCT), adult hockey league registrations, and third-party surface rentals. CCT experienced strong revenue growth in Canlan's branded hockey tournaments and new programs that increased participation numbers from a year ago. Increased adult hockey league registrations was due to focused marketing efforts in certain regions while third-party rentals increased from more groups booking ice and dry-floor time to operate summer training sessions and tournament events.

Same store food and beverage revenue of $2.4 million increased moderately by 2.5% mainly through pricing while other revenue of $1.2 million from sports store sales, sponsorship, space rental, vending, and management fees remained consistent with prior year.

Facility expenses include all costs directly related to the operations of our recreation properties. Total direct operating costs of $16.7 million increased by $0.9 million or 5.7% compared to 2018. Excluding the effects of the adoption of IFRS 16, same store facility expenses increased by $1.3 million or 8.8% from prior year. The increase in facility expenses is mainly due to higher repair and maintenance expense related to roof remediation projects, and costs to service increased volumes, in particular with CCT. The Company's multi-year roof remediation program that began in 2018 continued in 2019 to strengthen structure, improve insulation, and mitigate water penetration. During the quarter, approximately $0.8 million in roof remediation costs were incurred compared to $0.2 million in the prior year. Approximately $1.0 million will be incurred for the remainder of this year to complete the roof work scheduled for 2019.

Corporate general and administration (G&A) expenses of $1.2 million decreased by $0.1 million or 11.2% compared to prior year principally due to reduced stock-based compensation expense. Included in corporate G&A are costs related to management support services provided to all facilities (including accounting, marketing, operations, IT and human resources).

EBITDA of $0.7 million decreased by $0.4 million or 38% compared to prior year. After excluding the effects of presentation changes related to adoption of IFRS 16, same store EBITDA of $0.8 million decreased by $0.5 million compared to prior year primarily due to additional roof remediation expenses.

Total interest expense of $0.7 million related to our debt and finance leases increased by $0.2 million compared to 2018 mainly due to interest paid on a new acquisition loan drawn during first quarter of 2019 and the effects of the adoption of IFRS 16. Canlan has fixed the interest rate on a portion of its term debt with an interest rate swap contract. The quarterly mark-to-market gain on this financial instrument in 2019 was negligible compared to a gain of $0.2 million in 2018.

In addition to the above items, a gain of $1.2 million on the sale of assets has also been recorded in the statement of earnings and comprehensive income for the three months ended September 30, 2019. This gain arose from the sale of a parcel of excess land located in Alberta, Canada, Texas, U.S., and a recreation facility located in Fort Wayne, Indiana (see “***Review of Assets***” below). These divestitures are part of the Company’s asset optimization program to generate cash for reinvestment in higher yielding assets.

After recording depreciation of $2.0 million and an income tax recovery of $0.5 million, net loss for the quarter was $0.2 million or $0.02 per share compared to a net loss of $0.7 million or $0.05 per share a year ago.

Review of Operations – Nine months ended September 30, 2019

Comparative Results

Total revenue of $64.4 million increased by $1.5 million or 2.5% compared to 2018; same store revenue increased by $1.6 million or 2.8%. Same store revenue growth resulted mainly from increased registrations in summer adult hockey leagues, the youth soccer league at Lake Barrington, and strong participation in new events organized by CCT. In addition, sponsorship revenue grew from focused efforts to renew and add sponsor campaigns.

Revenue by business segment:

in thousands

Nine months ended September 30		**2019**		**2018**
Ice and field sales	$	**51,062**	**$**	49,479
Food and beverage		**9,315**		9,429
Sports store		**1,106**		1,266
Sponsorship		**1,083**		972
Space rental		**1,170**		1,046
Management and consulting fees		**199**		198
Other		**449**		449
Total revenue	**$**	**64,384**	**$**	62,839

Same store other revenue from sports store sales, space rental, vending, and management fees remained relatively steady compared to 2018.

Facility expenses include all costs directly related to the operations of our recreation properties. Total direct operating costs of $51.5 million increased by $2.0 million or 4.0% compared to 2018. Excluding the effects of the adoption of IFRS 16, same store facility expenses increased by $2.7 million or 5.9%. During the first three quarters of 2019, the Company incurred $1.1 million compared to $0.2 million last year to continue roof remediation projects that began in 2018. The Company’s multi-year roof remediation program will continue through the remainder of this fiscal year. Added costs to market product lines and service higher customer volumes was also a contributor to the increase of facility expense.

Corporate general and administration (G&A) costs of $4.1 million decreased by $0.1 million or 1.3% compared to prior year due to reduced stock-based compensation expense in 2019. 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 $8.7 million decreased by $0.4 million or 4.3% compared to 2018. After excluding the effects of presentation changes related to adoption of IFRS 16, same store EBITDA decreased by $0.9 million or 9.7% compared to prior year primarily due to additional roof remediation expenses.

Total interest expense of $2.2 million relating to debt and leases increased by $0.5 million compared to 2018. The increase was mainly due to interest paid on a new acquisition loan drawn during Q1 2019 to purchase Ice Sports West Dundee, and additional interest expense recognized as a result from adoption of IFRS 16. Canlan has fixed the interest rate at 3.52% on 53% of its term debt with an interest rate swap contract. The unrealized mark-to-market loss on the swap contract was $0.7 million for 2019 compared to a gain of $0.4 million in 2018.

In addition to the above items, a gain of $1.6 million on the sale of assets has also been recorded in the statement of earnings and comprehensive income. This gain principally arose from the sale of three parcels of excess land located in Ontario and Alberta, Canada, and Texas, U.S., and a recreation facility located in Fort Wayne, Indiana (see "***Review of Assets***" below). These divestitures are part of the Company's asset optimization program to generate cash for reinvestment in higher yielding assets.

After recording depreciation of $6.0 million and income tax expense of $0.1 million, net earnings was $1.7 million or $0.12 per share compared to $2.2 million or $0.17 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)

	2019			2018				2017
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Gross revenue	$ 18,600	$ 19,798	$ 25,986	$ 24,799	$ 18,272	$ 18,943	$ 25,624	$ 24,278
Operating costs	(16,734)	(17,791)	(16,981)	(17,689)	(15,834)	(17,119)	(16,559)	(16,702)
	1,866	2,007	9,005	7,110	2,438	1,824	9,065	7,576
General & administration	(1,183)	(1,564)	(1,387)	(1,577)	(1,332)	(1,375)	(1,483)	(2,074)
EBITDA	**683**	**443**	**7,618**	**5,533**	**1,106**	**449**	**7,582**	**5,502**
Depreciation	(1,942)	(2,033)	(1,991)	(1,776)	(1,703)	(1,725)	(1,725)	(1,706)
Finance costs	(683)	(677)	(583)	(495)	(526)	(502)	(516)	(511)
Foreign exchange gain (loss)	12	(21)	(21)	64	(18)	35	10	3
Gain (loss) on interest rate swap	26	(219)	(487)	(570)	228	8	125	85
Gain (loss) on sale of assets	1,201	(8)	408	5	1	-	4	-
Net earnings (loss) before taxes	**(703)**	**(2,515)**	**4,944**	**2,761**	**(912)**	**(1,735)**	**5,480**	**3,373**
Income tax recovery (expense)	456	657	(1,181)	(497)	188	458	(1,260)	(939)
Net earnings (loss)	**$ (247)**	**$ (1,858)**	**$ 3,763**	**$ 2,264**	**$ (724)**	**$ (1,277)**	**$ 4,220**	**$ 2,434**
Earnings (loss) per share	**$ (0.02)**	**$ (0.14)**	**$ 0.28**	**$ 0.17**	**$ (0.05)**	**$ (0.10)**	**$ 0.32**	**$ 0.18**

Review of Assets

The table below summarizes the Company's asset base:

in thousands	**September 30, 2019**	December 31, 2018 (as reported)
Properties	**$ 105,201**	$ 99,582
Cash	**14,681**	19,845
Assets held-for-sale	**6,405**	596
Prepaid expenses and other assets	**3,063**	1,681
Accounts receivable	**2,720**	3,361
Loan receivable	**2,577**	-
Inventory	**962**	1,099
Interest rate swap	**397**	1,077
Deferred income taxes	**3,562**	1,694
	$ 139,568	$ 128,935

During the nine months ended September 30, 2019, the Company invested $6.1 million (2018 - $4.5 million) on capital expenditures principally related to refrigeration equipment, energy efficient lighting, plant automation/optimization software, and ice resurfacing equipment.

In addition, on March 19, 2019, the Company completed the purchase of a three-ice-sheet, 106,000 square-foot facility situated on 8 acres of land, in a suburb of Chicago, Illinois called Ice Sports West Dundee for $13.3 million (US$10.0 million). In addition to three NHL-sized rinks with spectator seating, amenities include training facilities, well-appointed locker rooms, a proshop, equipment rental, offices, meeting space, and a full-service restaurant. The purchase was financed with a combination of cash reserves and a draw of $11.0 million on a capital expenditure credit facility. Since purchase, Ice Sports West Dundee has generated positive EBITDA and at September 30, 2019, the Company completed substantial building and ice plant capital improvements in preparation for the start of the fall/winter season.

Along with capital investments, some asset disposals were also completed. During the period, three excess land parcels (located in Ontario and Alberta, Canada, and Texas, U.S.) were sold for total cash consideration of $0.8 million. In addition, the Company completed the sale of an ice-rink facility located in Fort Wayne, Indiana, for $7.9 million (US$6.0 million). A combination of cash and a loan receivable of $2.6 million (US$2.0 million) was received in consideration of the sale proceeds. This loan matures on August 20, 2024 and is amortized over a 20-year period bearing interest at 5.97%. Principal and interest is paid monthly.

The total gain on sale of assets recognized during the nine months ended September 30, 2019 was $1.6 million.

The increase in properties was also due to the adoption of IFRS 16 – ***Leases*** (see "***Accounting Standards***" below). As a result, properties increased by $5.3 million and deferred tax asset, by $1.8 million as at January 1, 2019. Refer to notes 3, 6, 7 and 14 of the condensed consolidated interim financial statements for the period ended September 30, 2019.

Review of Liabilities

The table below summarizes the Company's capital structure:

in thousands	**September 30, 2019**	December 31, 2018 (as reported)
Debt	**$ 59,195**	$ 50,811
Accounts payable	**10,106**	12,567
Deferred revenue and customer deposits	**11,715**	12,881
Leases - right-of-use assets	**7,427**	1,714
Deferred income taxes	**2,447**	1,138
	90,890	79,111
Shareholders' equity	**48,678**	49,824
	$ 139,568	$ 128,935

Interest bearing liabilities, which include debt and leases, totaled $66.6 million as at September 30, 2019, compared to $52.5 million as at December 31, 2018. The increase of $14.1 million was mainly due to a draw of $11.0 million on the Company's capital expenditure loan for the purchase of Ice Sports West Dundee (see "***Review of Assets***" above) partially offset by scheduled debt and lease repayments.

In addition, the adoption of IFRS 16 – ***Leases*** also contributed to the increase in lease liabilities (see "***Accounting Standards***" below). As a result of the adoption, "leases –

right-of-use assets" increased by $6.6 million and deferred tax liabilities increased by $1.4 million as at January 1, 2019. Refer to notes 3, 6, 7 and 14 of the condensed consolidated interim financial statements for the period ended September 30, 2019.

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

At September 30, 2019, the working capital deficit was $6.5 million compared to $4.0 million at December 31, 2018 as cash reserves were utilized to help finance the purchase of Ice Sports West Dundee and complete incremental capital and maintenance projects at existing facilities.

Debt

As at September 30, 2019, 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 BA rate plus 2.10% 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, 2019, the balance outstanding was $31.8 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, 2019, the balance outstanding was $8.4 million;
3) $20.0 million revolving capital expenditure loan amortized over 15 years, maturing on May 25, 2023. At September 30, 2019, there was a balance outstanding of $12.7 million, $11 million of which was used to finance the acquisition of an ice rink property. Of the total outstanding, $2.0 million accrues interest at Prime rate plus 0.50% per annum, and $10.7 million accrues interest at BA rate plus 2.10% per annum;
4) $7.1 million loan amortized over 15 years, maturing on September 30, 2023, interest at CDOR plus 2.1% per annum payable monthly. At September 30, 2019, the balance outstanding was $6.6 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.

The Company was in compliance with all debt covenants as at September 30, 2019 and we expect to continue to be in compliance during the remainder of 2019.

Liquidity and Capital Resources

The Company's debt to equity ratio was 1.37:1 at the end of the third quarter, compared to 1.05:1 at December 31, 2018. The increase was mainly due to higher debt and leases payable as a result of financing the acquisition of Ice Sports West Dundee and the adoption of IFRS 16 – *Leases* (see "***Accounting Standards***" below).

During the first nine months of the year, cash generated from operations was $2.7 million compared to $5.8 million a year ago. The decrease was principally due to decreased operating earnings and a reduction of vendor accounts payable.

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

in thousands

Nine months ended September 30	**2019**	**2018**
EBITDA	**$ 8,744**	$ 9,137
Changes in working capital items	**(3,755)**	(1,170)
Net interest expense	**(1,881)**	(1,622)
Income tax effect included in changes in working capital	**(268)**	(553)
Unrealized foreign currency loss	**(150)**	42
Cash flow from operations	**$ 2,690**	$ 5,834

During the nine months ended September 30, 2019, the Company utilized $3.9 million to make scheduled debt and lease repayments, drew $11.0 million from a capital expenditure credit facility to help finance the purchase Ice Sports West Dundee, issued a loan receivable of $2.6 million on the sale of a recreation property (see "***Review of Assets***" above), invested $6.1 million in capital expenditures, and paid dividends of $1.0 million. A quarterly dividend of $0.4 million was also announced to shareholders of record on September 30, 2019 that was paid on October 15, 2019.

The Company's cash position at September 30, 2019 was $14.7 million, a decrease of $5.2 million from December 31, 2018.

in thousands

Nine months ended September 30	**2019**	**2018**
Cash provided by (used in):		
Operations	**$ 2,690**	$ 5,834
Financing	**7,088**	(3,098)
Investing	**(13,822)**	(4,628)
Foreign currency change	**(120)**	91
Dividends paid	**(1,000)**	(867)
Net cash flow	**$ (5,164)**	$ (2,668)

Share Capital

The total and weighted average number of shares issued and outstanding at September 30, 2019 and December 31, 2018 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, 38,667 SARs were exercised with a weighted average exercise price of $3.53.

As at September 30, 2019, 527,918 stock appreciation rights were outstanding with a weighted average exercise price of $3.63. Of these rights, 241,168 rights are vested and exercisable with a weighted average exercise price of $3.58 as at September 30, 2019.

During the nine months ended September 30, 2019, stock-based compensation expense of $0.2 million (2018 – $0.4 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 has the following financial instruments:

	Accounting classification	Fair value level
Financial assets not measured at fair value:		
Cash and cash equivalents (i)	Amortized cost	2
Accounts and loan receivable (i)	Amortized cost	2
Financial assets measured at fair value:		
Interest rate swap (iii)	Financial assets at FVTPL	2
Financial liabilities not measured at fair value:		
Accounts payable and accrued liabilities (i)	Amortized cost	2
Debt (ii)	Amortized cost	2

(i) The carrying values of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities are considered by management to approximate their fair values due to their short-term nature.

In August 2019, the Company received a promissory note as part of the proceeds of disposition of a recreation facility in Fort Wayne, Indiana (see "***Review of Assets***" above). The loan is classified as amortized cost presented as current and non-current loan receivable on the statement of financial position. At September 30, 2019, the loan receivable balance outstanding was $2.6 million (US$1.9 million).

(ii) Debt is of a long-term nature and may be impacted by changes in market yields, which can result in differences between their carrying values and their fair values. Management estimates that these differences are not material to the financial statements as at September 30, 2019.

(iii) 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. For the nine months ended September 30, 2019, the decrease in its fair value resulted in a loss of $0.7 million being recognized in the statement of earnings (2018 – gain of $0.4 million).

The Company does not have held-to-maturity investments at September 30, 2019. The Company had no “other comprehensive income or loss” transactions related to financial instruments during the nine months ended September 30, 2019 and no opening or closing balances for accumulated other comprehensive income or loss related to financial instruments.

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, 2018 and December 31, 2017, and Note 3 to our condensed consolidated interim financial statements for the period ended September 30, 2019. 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.

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. 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, 2019.

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, 2019. 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, 2019.

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 the working capital needs of U.S. operations.

Mitigating factors and strategies:

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

Seasonality of Operations

The Company's business cycle is highly seasonal with 57% of total revenues and virtually all of the operating profit being generated in the first and last quarters. This seasonality of operations impacts reported quarterly earnings. The operating 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.
- Management ensures cash reserves are adequate to finance working capital throughout the off-peak seasons.

Competition

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

Mitigating factors and strategies:

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

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. 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 and other key personnel. As the Company's ability to retain these key personnel and executive officers is important to its success and growth, the loss of such personnel could adversely affect the Company's business, financial condition, cash flows and results of operations.

Mitigating factors and strategies:

- The Company has established 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 and reduces energy consumption.
- The Company employs a full-time subject matter expert in energy management.

Privacy and Security of Information

In the ordinary course of our business we receive, process and store information from our guests and others, including personal information of our guests and employees often through online operations that depend upon the secure communication of information over public networks and in reliance on third party service providers. The secure operation of the networks and systems on which this information is stored, processed and maintained is critical to our business operations and strategy. Although we maintain systems to protect this information and rely on systems security of third-party software service providers, these systems must be continuously monitored and updated and could be compromised, in which case our guest information could become subject to intrusion, tampering or theft. Any compromise of our data security systems or the security systems of our third-party service providers could have an adverse impact on our reputation, be costly to remediate and could have a material adverse effect on our business.

Mitigating factors and strategies:

- The Company has deployed network security measures and performs periodic security compliance audits.
- Information security has been made a part of the Company's Enterprise Risk Management Strategy to provide oversight over this particular risk.

Interest Rate Risk

Mortgage debt of $27.7 million, is subject to variable interest rates. For every 1% change in base market rates, interest expense will change by $0.3 million per annum.

Mitigating factors and strategies:

- The Company has fixed the interest rate on $31.8 million or 53% 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 2,297,000 Common shares, which represents 17.2% 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 2019

(a) Effective January 1, 2019, the Company has adopted IFRS 16 *Leases*, which was issued in January 2016 and sets out a new model for lease accounting, replacing IAS 17 – *Leases*. 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, 2019, are described below.

The Company adopted IFRS 16 using the modified retrospective approach. Therefore, the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The Company has identified lease contracts related to property leases, for which recognition will change under IFRS 16. The recognition of leased assets and their related liabilities will increase earnings from ice rinks and recreational facilities before depreciation and amortization, with a corresponding combined increase in depreciation and amortization and financial costs.

Based on management's assessment, as at January 1, 2019, property, plant and equipment increased by approximately $5.3 million, total liabilities increased by approximately $6.6 million, net deferred tax assets increased by approximately $0.3 million and deficit increased by $1.0 million. If the Company had applied IFRS 16 effective January 1, 2018, property, plant and equipment would have increased by approximately $6.0 million, total liabilities, by approximately $7.5 million, net deferred tax assets, by approximately $0.4 million and deficit would have been increased by $1.1 million.

Lease policy applicable from January 1, 2019:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the bases of their relative stand-alone prices.

The Company recognizes a right-of-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use asset is periodically reduced by impairment losses.

The lease liability is initially measured at the present value of future lease payments discounted using an implicit interest rate or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets:

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Company recognizes the lease payments associated with these leases in net earnings on a straight-line basis over the lease term.

Lease policy applicable before January 1, 2019 is disclosed in note 3 of the Company's consolidated financial statements for the year ended December 31, 2018.

(b) IFRS 3 amendments – *Clarifying What is a Business* was issued in October 2018 and effective as of January 2020. This amendment provides guidance to assist entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. The amendments include an election to use a concentration test which is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets.

In relation to the purchase of Ice Sports West Dundee, the Company has early adopted these amendments on January 1, 2019. As a result of this adoption, the purchase of the facility on March 19, 2019 constitutes the purchase of assets rather than a business combination as the Company has elected to use the concentration test to determine the type of acquisition of a property purchased on March 19, 2019. See "***Review of Assets***" above.

Ivan Wu
Chief Financial Officer