



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

**For the Nine Months Ended September 30, 2020
As of November 12, 2020**

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, 2020 and the consolidated operating results for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019. This document should be read in conjunction with our unaudited condensed consolidated interim financial statements for the period ended September 30, 2020, the accompanying notes, and our audited consolidated financial statements for the years ended December 31, 2019 and December 31, 2018. 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 12, 2020.

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.

Operations Affected By Coronavirus (COVID-19)

As previously reported, the Company is presently managing the repercussions from the impact of the outbreak of the Coronavirus (COVID-19) that resulted in temporary closures of the Company's recreation facilities in Canada and the United States from March 13, 2020 until June 15, 2020. During the week of June 15, 2020, the Company resumed facility operations on a limited capacity basis and since that time, has been gradually increasing capacity. As at the date of this report, approximately 95% of the Company's sport surfaces have been made available for rental and in-house leagues and programs and operating in accordance with local health and safety regulations. Proshops have also resumed operations starting September and management is testing alternative formats to determine the best method to service customers' needs regarding food & beverage consumption.

As a result of the pandemic, the Company has established measures to preserve liquidity and to strengthen the Company's resilience in managing the effects of a reduction in business activity. Measures taken to date include a reduction of labour and other operating costs (See "**Review of Operations – Year-Over-Year Results for Nine Months Ended September 30, 2020**" below), cash payment deferrals arranged with various creditors, application for government subsidies, and collaboration with the Company's senior lenders to arrange for additional credit facilities if required (See "**Review of Liabilities and Shareholders' Equity**" below). The extent of the impact of the pandemic will vary depending on government regulations and the general economic activity in Canada and the United States. The pace of recovery following the pandemic cannot be accurately predicted at this time but management will continue to adjust policies and procedures as appropriate. See "Risk Factors - COVID-19 and other Pandemic or Epidemic Diseases".

Overview – Three Months Ended September 30, 2020

- Cash on-hand at September 30, 2020 was \$9.4 million with additional access to a working capital credit line of \$10.0 million;
- As a result of the COVID-19 pandemic that forced facility closures and continue to limit the Company's operations, Q3 revenue was \$9.4 million compared to \$18.6 million a year ago and EBITDA was \$0.3 million compared to \$0.7 million. Facilities resumed partial operations beginning the week of June 15, 2020;
- The Company commenced a new adult hockey league (ASHL) season for the Fall (September to December 2020) and achieved registrations of over 1,235 teams, which represents approximately 61% of 2019 same-store registrations; and
- The sale of a parcel of surplus land was completed and a note receivable related to the sale of an ice rink facility that completed in 2019 was collected. These transactions resulted in cash inflows of \$4.9 million.

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.

As at the date of this MD&A the Company owns, leases or manages a network of 18 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, one facility under an operating agreement with a municipality and a further two facilities under operating leases. We also manage two facilities on behalf of municipalities. On April 30, 2020, the Company's operating agreement related to an ice-rink facility in Alberta, Canada came to maturity and facility operations was reverted back to the municipality.

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:

	<u>Canada:</u>	Ice Surfaces	Indoor Turf Fields	Courts ^a	Total Playing surfaces
British Columbia	5	14	1	-	15
Saskatchewan	2	6	-	-	6
Manitoba	1	3	1	-	4
Ontario	6	20	2	11	33
Quebec	1 ^c	-	-	-	-
	15	43	4	11	58
	<u>USA:</u>				
Illinois	3	6	1 ^b	4	11
	18	49	5	15	69

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) Our facility in Quebec 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 shares listed on the Toronto Stock Exchange (TSX) under the trading symbol **ICE**. Canlan's shares were first listed for trading on March 1, 1990.

There are approximately 13.3 million shares outstanding and have traded in the \$2.43 to \$5.58 range during the nine-month period. The Company has not issued any shares from treasury 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, 2020, 2019 and 2018. This data should be read together with the unaudited condensed consolidated interim financial statements for the periods ended September 30, 2020, 2019, and 2018.

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,	2020	2019	2018
Statement of Operations Data:			
Total revenue ⁽¹⁾	\$ 31,015	\$ 64,384	\$ 62,839
Other income - government subsidy	3,625	-	-
Direct expenses ⁽²⁾	(30,544)	(51,506)	(49,512)
General & administration expenses	(3,958)	(4,134)	(4,190)
Earnings before the undernoted	138	8,744	9,137
Other expenses:			
Depreciation	(5,990)	(5,966)	(5,153)
Finance costs	(1,776)	(1,943)	(1,544)
Foreign exchange gain (loss)	63	(30)	27
Gain (loss) on interest rate swap	(1,170)	(680)	361
Gain on sale of assets	2,244	1,601	5
Income tax recovery (expense)	1,679	(68)	(614)
Net earnings (loss)	\$ (4,812)	\$ 1,658	\$ 2,219
Other comprehensive income (loss)	1,122	(787)	274
Total comprehensive income (loss)	\$ (3,690)	\$ 871	\$ 2,493
Basic and fully diluted earnings (loss) per share	\$ (0.36)	\$ 0.12	\$ 0.17
Balance Sheet Data:			
Cash and cash equivalents	\$ 9,384	\$ 14,681	\$ 15,961
Current assets (excluding cash, note receivable and assets held-for-sale)	4,404	5,775	5,245
Note receivable	-	2,577	-
Assets held-for-sale	6,061	6,405	-
Capital assets	101,198	105,201	99,425
Other assets	5,740	4,929	3,778
Total assets	\$ 126,787	\$ 139,568	\$ 124,409
Current liabilities, excluding debt	\$ 15,390	\$ 21,821	\$ 22,804
Mortgage debt	56,392	59,195	51,575
Lease liabilities	6,937	7,427	1,937
Deferred tax liabilities	3,374	2,447	1,336
Total liabilities	82,093	90,890	77,652
Shareholders's equity	44,694	48,678	46,757
	\$ 126,787	\$ 139,568	\$ 124,409
Dividends declared	\$ -	\$ 1,034	\$ 934

(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

Year-Over-Year Results for Three Months Ended September 30, 2020 and Managing the Effects of COVID-19 Pandemic

During Q3, operating revenue was \$9.4 million compared to \$18.6 million in 2019 as facilities operated at 50% to 60% capacity due to general pandemic health and safety concerns and adherence to health regulations. In addition, subsidies from the Canadian government's Emergency Wage Subsidy program totaled \$2.2 million for the quarter.

Food and beverage and proshop operations were substantially closed for the quarter.

Since the reopening of facilities in June 2020 for rentals and modified hockey league play, the Company initiated a number of health and safety measures that are currently in place. These include:

- 1) Employment of attendants to screen and check-in facility guests;
- 2) Adjustment of schedules to maximize physical distancing inside and outside of dressing rooms;
- 3) Limiting the number of participants allowed on each sport surface;
- 4) Modification of rink-side bench areas, league rules and play-format to maximize physical distancing; and
- 5) Requirement of employees and guests to wear personal protective equipment.

As at the date of this report, all facilities, except one, are active with surface utilization at approximately 50% to 60% of the Company's normal capacity as league and tournament play is restricted in certain markets. Food and beverage and proshop operations remain substantially closed. On November 2, 2020, a Provincial order was announced that required the ice rink facility in Winnipeg, Manitoba to close for a minimum of two weeks.

During Q3, aside from a focus on providing a safe environment for our customers to play, the operations team completed some key repair and maintenance projects related to rink refrigeration systems that are expected to have positive effects on ice quality and energy consumption. Q3 repair and maintenance (R&M) expenses of \$1.1 million, compared to \$2.1 million in 2019, consisted mainly of these costs. All other R&M expenses not considered critical have been deferred in efforts to preserve liquidity.

All other operating expenses decreased significantly from the prior year due to reduced operations caused by the pandemic and cost management to preserve cash.

General and administration (G&A) expenses of \$1.3 million increased by \$0.2 million or 13.6% mainly due to increased legal and professional services required for guidance on reporting compliance, HR, public relations, and presentations to regulatory bodies as we continue to operate through the pandemic. After G&A expenses, EBITDA was \$0.3 million for the quarter compared to \$0.7 million a year ago.

After recording depreciation and finance costs of \$2.5 million (2019 - \$2.6 million), a gain of \$2.1 million on the sale of a parcel of excess land, and an income tax recovery of \$0.1 million, the quarter broke even compared to a loss of \$0.2 million or \$0.02 a share a year ago.

Review of Operations – Year-Over-Year Results for Nine months ended September 30, 2020

Revenue by business segment:

in thousands

Nine months ended September 30	2020	2019
Ice and field sales	\$ 25,979	\$ 51,062
Food and beverage	2,600	9,315
Space rental	1,114	1,170
Sponsorship	619	1,083
Sports store	322	1,106
Management and consulting fees	194	199
Other	187	449
Total revenue	\$ 31,015	\$ 64,384

Total revenue of \$31.0 million, decreased by \$33.4 million or 51.8%. This reduction reflects the closure of facilities from the middle of March until the middle of June 2020, the curtailment of operations from normal levels since our re-opening, and the continued suspension of food & beverage and retail operations. Approved wage subsidies totaled \$3.6 million for the nine months ended September 30, 2020. Total facility wage expense incurred was \$15.2 million during this period, compared to \$24.7 million in 2019.

Including labour costs, facility expenses totaled \$30.5 million compared to \$51.5 million in 2019. This represents a decrease of 40.7% compared to the prior year. Operating costs did not decrease by the same margin as revenue because the Company continued to complete critical maintenance projects during the period of facility closures, incurred costs directly related to health and safety in preparation of facility re-openings and certain costs are fixed in nature such as property taxes.

As discussed under “Operations Affected By Coronavirus (COVID-19)”, measures taken to preserve liquidity included significant reductions in operating costs, continued application for the Canadian Emergency Wage Subsidies, and from April 1 to July 31, 2020, the Company leveraged payment deferral programs offered by municipal tax authorities and lessors of facilities that are being leased by the Company. Beginning in Q3, all lease and municipal tax payments resumed as scheduled.

During the period, G&A costs of \$4.0 million decreased from 2019 by \$0.2 million or 4.3%. Included in corporate G&A are costs related to management support services provided to all facilities (including accounting, marketing, operations, IT support, and human resources). The reduction of G&A resulted mainly from decreased labour and travel costs; however, this decrease has been partially offset by incremental costs incurred to managing operations and mitigating risks related to the pandemic. To further reduce the impact of COVID-19 on our cashflows during this period of limited operations, starting April 2020, senior officers and directors of the Company have deferred 20% of their compensation.

For the first nine months of 2020, with approximately one-half of normal operating revenue, EBITDA was \$0.1 million compared to \$8.7 million a year ago.

Net interest expense of \$1.8 million related to our term debt and leases remained consistent with 2019. Canlan has fixed the interest rate at 3.52% on 53% of its term debt with an interest rate swap contract. The mark-to-market loss on the swap contract was \$1.2 million for 2020 compared to a loss of \$0.7 million in 2019.

As discussed under “Operations Affected By Coronavirus (COVID-19)”, one of the cash preservation measures taken by the Company was to arrange for interest-only debt service payments with our senior lenders for a three-month period starting in April 2020. Normal principal plus interest debt service payments resumed Q3.

After recording depreciation expense of \$6.0 million, a gain of \$2.2 million on the sale of a parcel of excess land and some legacy equipment, and an income tax recovery of \$1.7 million, net loss year-to-date was \$4.8 million or \$0.36 per share compared to net earnings of \$1.7 million or \$0.12 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)

	2020			2019				2018
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Gross revenue	\$ 9,365	\$ 767	\$ 20,883	\$ 23,957	\$ 18,600	\$ 19,798	\$ 25,986	\$ 24,799
Government subsidy	2,242	1,383	-	-	-	-	-	-
Operating costs	(10,001)	(5,769)	(14,774)	(17,741)	(16,734)	(17,791)	(16,981)	(17,689)
	1,606	(3,619)	6,109	6,216	1,866	2,007	9,005	7,110
General & administration	(1,344)	(1,262)	(1,352)	(1,712)	(1,183)	(1,564)	(1,387)	(1,577)
EBITDA	262	(4,881)	4,757	4,504	683	443	7,618	5,533
Depreciation	(1,919)	(1,954)	(2,117)	(1,980)	(1,942)	(2,033)	(1,991)	(1,776)
Finance costs	(571)	(574)	(631)	(652)	(683)	(677)	(583)	(495)
Foreign exchange gain (loss)	(10)	(43)	116	(14)	12	(21)	(21)	64
Gain (loss) on interest rate swap	14	(128)	(1,056)	195	26	(219)	(487)	(570)
Gain (loss) on sale of assets	2,126	118	-	13	1,201	(8)	408	5
Net earnings (loss) before taxes	(98)	(7,462)	1,069	2,066	(703)	(2,515)	4,944	2,761
Income tax recovery (expense)	57	1,646	(24)	(1,276)	456	657	(1,181)	(497)
Net earnings (loss)	\$ (41)	\$ (5,816)	\$ 1,045	\$ 790	\$ (247)	\$ (1,858)	\$ 3,763	\$ 2,264
Earnings (loss) per share	\$ (0.003)	\$ (0.44)	\$ 0.08	\$ 0.06	\$ (0.02)	\$ (0.14)	\$ 0.28	\$ 0.17

Review of Assets

The table below summarizes the Company's asset base:

<i>in thousands</i>	September 30, 2020	December 31, 2019
Properties	\$ 101,198	\$ 105,209
Cash	9,384	16,528
Accounts receivable	2,218	2,933
Note receivable	-	2,492
Inventory	851	870
Prepaid expenses and other assets	2,375	2,995
Assets held-for-sale	6,061	6,406
Interest rate swap	-	591
Deferred income taxes	4,700	3,139
	<u>\$ 126,787</u>	<u>\$ 141,163</u>

At September 30, 2020, total properties of \$101.2 million decreased by \$4.0 million mainly due to scheduled depreciation. Due to the reduced business activities of the Company's recreation facilities, management has completed an interim review of the recoverability of property, plant, and equipment, and has concluded that there has been no material impairment in the recoverability of the properties at September 30, 2020.

Year-to-date, the Company invested \$1.0 million (2019 - \$6.1 million) on capital expenditures related to equipment and plant renewals at various facilities. A relatively low amount has been spent on capital projects in 2020 to preserve cash.

In 2019, the Company issued a five-year promissory note as partial consideration for proceeds on disposal of a three-pad ice arena in Indiana. During Q3 2020, the debtor repaid the note early, which provided a cash inflow of \$2.5 million.

The interest rate swap contract relates to a financial instrument used to fix the interest rate on \$30.2 million of long-term debt. Due to the continued downward pressures on market interest rates, quarterly mark-to-market adjustments for accounting purposes have reduced the value of the financial asset and as at September 30, 2020, the swap contract was presented as a financial liability on the balance sheet. See "**Review of Liabilities and Shareholders' Equity**" below.

Cash on hand at September 30, 2020 was \$9.4 million compared to \$16.5 million at December 31, 2019. See "**Liquidity and Capital Resources**" below for sources and uses of cash.

Disclosures in the interim consolidated financial statements for the period ended September 30, 2020 note that cash and cash equivalents include \$0.5 million (2019 - \$0.9 million) of restricted cash representing funds held in trust in accordance with the terms of a lease agreement.

Prepaid expenses consist of amounts paid in advance that will be expensed in the subsequent 12 months, such as insurance and property taxes.

Review of Liabilities and Shareholders' Equity

The table below summarizes the Company's capital structure:

<i>in thousands</i>	September 30, 2020	December 31, 2019
Debt	\$ 56,392	\$ 58,271
Deferred revenue and customer deposits	6,704	12,199
Accounts payable	8,107	11,578
Lease payable - right-of-use assets	6,937	7,303
Deferred income taxes	3,374	3,428
Interest rate swap	579	-
	82,093	92,779
Shareholders' equity	44,694	48,384
	\$ 126,787	\$ 141,163

Interest bearing liabilities, which include debt and leases, totaled \$63.3 million as at September 30, 2020 compared to \$65.6 million at December 31, 2019. The decrease is mainly due to scheduled debt and lease repayments net of new equipment lease financing.

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, 2020, customer deposits totaled \$6.7 million. Subsequent to facility closures, credits were provided to many customers for programs, league play, or surface rentals that had to be revised, cancelled or postponed. These credits were maintained for customers' use as credits for future registrations. In situations where customers could not utilize credits for future offerings, their payments were refunded to them. As at the end of Q3, approximately \$2.3 million of customer payments were refunded.

Mortgages

As at September 30, 2020, 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, 2020, the balance outstanding was \$30.2 million. On April 23, 2020, the Bank provided a temporary amendment to the repayment terms, such that interest only payments were required from May 1, 2020 until July 31, 2020. The credit facility's maturity date of May 25, 2023 remained unchanged. This amendment was initiated in response to the COVID-19 outbreak that resulted in a temporary suspension of the Company's operations;
- 2) \$20.0 million loan (with \$10.0 million of this amount revolving) amortized over 15 years, maturing on May 25, 2023, interest at Prime rate plus 0.50% per annum payable monthly. At September 30, 2020, the balance outstanding was \$18.0 million. On April 23, 2020, the Bank provided a temporary amendment to the repayment terms, such that interest only payments were

required from May 1, 2020 until July 31, 2020. The credit facility's maturity date of May 25, 2023 remained unchanged. This amendment was initiated in response to the COVID-19 outbreak that resulted in a temporary suspension of the Company's operations;

- 3) \$20.0 million revolving capital expenditure loan amortized over 15 years, maturing on May 25, 2023, interest at Prime rate plus 0.50% per annum payable monthly. At September 30, 2020, the balance outstanding was \$2.3 million. On April 23, 2020, the Bank provided a temporary amendment to the repayment terms, such that interest only payments were required from May 1, 2020 until July 31, 2020. The credit facility's maturity date of May 25, 2023 remained unchanged. This amendment was initiated in response to the COVID-19 outbreak that resulted in a temporary suspension of the Company's operations. In addition, \$10.0 million of this revolving credit facility was made also available for working capital purposes from April 23, 2020 until December 31, 2020. Amounts drawn on this working capital credit facility will accrue interest at Prime rate plus 0.50% and interest only shall be payable until December 31, 2020. On January 1, 2021, the amount drawn for working capital purposes will be transitioned to term debt and be amortized over 15 years and principal plus interest shall be repayable monthly. In addition, the revolving capital expenditure loan available will revert to \$20.0 million less amounts drawn for capital expenditures. As at the date of reporting, no amounts have been drawn from this \$10.0 million working capital credit facility;
- 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, 2020, the balance outstanding was \$6.2 million. On March 31, 2020, the Bank provided a temporary amendment to the repayment terms, such that interest only payments were required from April 1, 2020 until June 30, 2020. The credit facility's maturity date of September 30, 2023 remained unchanged. In addition, the bank provided a waiver on covenant compliance requirements for September 30, 2020 and December 31, 2020. These amendments were initiated in response to the COVID-19 outbreak that resulted in a temporary suspension and continued limitation of the Company's business operations; 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.

At September 30, 2020, the Company was in compliance with quarterly debt covenants. On August 7, 2020, one annually tested covenant related to the Company's debt coverage ratio that would have been measured based on the Company's December 31, 2020 consolidated financial results was waived by the Company's senior lenders in light of the unusual effects that the COVID-19 pandemic is anticipated to have on business operations during the 2020 fiscal year. In its place, a new liquidity covenant has been established that is based on the Company's cash-on-hand plus available operating credit lines as at December

31, 2020. This waiver and revision of covenants will be in effect until December 31, 2020.

Currently, management is working with senior lenders to prospectively review covenants and obtain waivers, if appropriate, for the 2021 fiscal year. The situation presented by the COVID-19 pandemic continues to be fluid and therefore, both the pace of financial recovery and the period in which the Company can remain in a strong financial position cannot be accurately predicted at this time. See **Risk Factors - COVID-19 and other Pandemic or Epidemic Diseases**.

Liquidity and Capital Resources

The Company's debt to equity ratio was 1.42:1 at the end of the third quarter, compared to 1.36:1 at December 31, 2019. The increase was mainly due the reduction in shareholder's equity resulting from operating losses sustained during the period.

The following table provides a summary of cashflows for the nine months ended September 30:

<i>in thousands</i>		
Nine months ended September 30	2020	2019
Cash provided by (used in):		
Operations	\$ (8,267)	\$ 2,690
Financing	(2,200)	7,088
Investing	3,889	(13,822)
Foreign currency change	(199)	(120)
Dividends paid	(367)	(1,000)
Net cash flow	<u>\$ (7,144)</u>	<u>\$ (5,164)</u>

During the first nine months of the year, the negative impacts of the pandemic resulted in net cash used for operations of \$8.3 million compared to a net inflow of cash of \$2.7 million a year ago.

With respect to financing activities, scheduled debt and lease principal payments totaled \$2.9 million compared to \$3.9 million in 2019 as a principal holiday was provided to the Company by its senior lenders for a three-month period. In August 2020, the Company returned to normal monthly debt service payments of \$0.5 million. In addition, \$0.4 million of dividends that were declared in November 2019, were paid in January 2020. As previously reported in the Company's March 24, 2020 news release, the Company has suspended quarterly dividends until further notice to preserve liquidity.

Investing activities during the period totaled \$1.2 million of cash invested in capital projects related to building improvements, kitchen and refrigeration equipment upgrades, and continued work on implementation of a new customer relationship management system. During the same period last year, the Company purchased Ice Sports West Dundee and invested significant funds in upgrading that facility.

Also included in investing activities was the receipt of payment of a note receivable, which increased cash by \$2.5 million and proceeds from the sale of a parcel of vacant land provided cash of \$2.4 million. See **Review of Assets**.

The following table provides a reconciliation of earnings before interest, tax, depreciation and amortization to cash flow from operations:

in thousands

Nine months ended September 30	2020	2019
Earnings before interest, tax, depreciation and amortization	\$ 138	\$ 8,744
Changes in working capital items	(7,039)	(3,755)
Net interest expense	(1,822)	(1,881)
Income tax effect included in changes in working capital	64	(268)
Unrealized foreign currency gain (loss)	392	(150)
Cash flow from operations	\$ (8,267)	\$ 2,690

The Company's cash position at September 30, 2020 was \$9.4 million, compared to \$16.5 million at December 31, 2019 (see "**Review of Assets**" above).

As at the date of this MD&A, management remains focused on liquidity preservation and maintaining the Company's resilience during this period of reduced business operations. This involves close management and monitoring of cash flows, forecasting cash requirements, and continued management of all the measures discussed above that have been taken to mitigate the challenges posed by the COVID-19 pandemic. Management is also focused on being prepared to respond appropriately to a dynamic situation either by expanding, contracting or adjusting operations in accordance with government regulations and the status of the pandemic.

Given the measures taken to preserve cash, the Company's ability to access additional credit facilities (See "**Review of Liabilities and Shareholders Equity – Mortgages**"), and the Company's cash position at September 30, 2020 and at the date of this report, management believes the Company is financially well-positioned to address the adverse effects of reduced business activity to date. However, the duration of the COVID-19 pandemic, the full negative impact on the Company's financial performance, or the pace of recovery following the pandemic cannot be accurately predicted at this time. See "**Risk Factors - COVID-19 and other Pandemic or Epidemic Diseases**" below.

Share Capital

The total and weighted average number of shares issued and outstanding at September 30, 2020 and December 31, 2019 was 13,337,448.

The Company did not issue any shares during the period and does not have a stock option plan.

Transactions with Related Parties

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

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

A Director of the Company is the Chairman of the Board of Directors of a vendor from which the Company purchases services in the normal course of business. Purchases from this vendor for the nine months ended September 30, 2020 was \$15,000 (2019 - nil).

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 note receivable (i)	Amortized cost	2
Financial assets measured at fair value:		
Interest rate swap (iii)	FVTPL	2
Financial liabilities not measured at fair value:		
Accounts payable and accrued liabilities (i)	Amortized cost	2
Lease liabilities (ii)	Amortized cost	2
Debt	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.

(ii) The carrying values of lease liabilities are considered by management to approximate their fair values due to the lease rate at reporting date being consistent with the lease rate at inception date.

(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. Changes in fair value of the instrument are recognized in net earnings. For the nine months ended September 30, 2020, a loss of \$1.2 million (\$0.7 million in 2019) was recognized.

The Company does not have held-to-maturity investments at September 30, 2020. The Company had no "other comprehensive income or loss" transactions related to financial instruments during the nine months period ended September 30, 2020 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 the audited consolidated financial statements for the year ended December 31, 2019 and December 31, 2018, and Note 3 to our condensed consolidated interim financial statements for the period ended September 30, 2020. 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 occur, and as ice or field times are used. Deferred revenue relates to amounts received in advance for the Company's sports leagues, programs, and rentals. 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. Due to the COVID-19 pandemic, which resulted in a temporary closure of the Company's recreation properties and the limited business activity of facilities, management has reviewed the recoverability of property, plant, and equipment, and has concluded that there has been no impairment in the recoverability of the properties at September 30, 2020.

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 long-term incentive program

The Company introduced a new long-term incentive program to eligible employees and Directors on January 1, 2020 called the "2019 SARs Plan" (the Plan). Units of the Plan will vest and become exercisable on December 31, 2022. Upon exercise, the Plan provides cash compensation to the unit-holders based upon the future equity value of the Company as calculated by a specified formula. Compensation expense is recognized based upon the best estimate of the undiscounted amount that is expected to be paid pro-rated over the life of the vesting term. Based on calculations at September 30, 2020, no compensation expense related to the Plan was recorded during the first three quarters of the year.

Deferred Income Tax

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

Disclosure Controls and Procedures

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

Based on current securities legislation in Canada, our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are required to certify that they have assessed the effectiveness of our disclosure controls and procedures as at September 30, 2020.

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, 2020. 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, 2020.

Risk Factors

Canlan is engaged primarily in the operation of multi-pad recreation facilities in Canada and the United States, 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.

COVID-19 and other Pandemic or Epidemic Diseases

Outbreaks or the threat of outbreaks of viruses or other contagions or epidemic or pandemic diseases, including the recent COVID-19 outbreak, may lead to voluntary or mandatory building closures, government restrictions on travel, or gatherings, which may lead to a general slowdown of economic activity and disrupt our workforce and business operations. Such occurrences, including the outbreak of COVID-19, could have a material adverse effect on the demand for recreation services. The pace of recovery following such occurrences cannot be accurately predicted, nor can the impact on the Company's cash flows, results of operations, and the Company's ability to obtain additional financing, or re-financing. As at the close of business day March 13, 2020, the Company temporarily closed its facilities as a result of the COVID-19 outbreak. During the week of June 15, 2020, the Company resumed facility operations on a limited-capacity basis.

Mitigating factors and strategies:

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

Leverage and Ability to Service Indebtedness

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

- the Company 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 our business will generate cash flow from operations sufficient to pay the Company's indebtedness, fund other liquidity needs or permit the Company to refinance its indebtedness. The Company can provide no assurances that it can secure any further credit facilities or that the terms of any such credit facilities will be favourable.

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

Mitigating factors and strategies:

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

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

Mitigating factors and strategies:

- Various programs are developed to increase traffic during the 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 \$26.5 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 \$30.2 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 shares of the Corporation, which will allow it to control substantially all the actions taken by the shareholders of the Company, including the election of the directors. In addition, at the date of this MD&A, a Trust in the U.S. holds 2,297,000 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.

Ivan Wu
Chief Financial Officer