



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

**For the Nine Months Ended September 30, 2021  
As of November 10, 2021**

# **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, 2021 and the consolidated operating results for the three and nine months ended September 30, 2021 compared to the three and nine months ended September 30, 2020. This document should be read in conjunction with our unaudited condensed consolidated interim financial statements for the period ended September 30, 2021, the accompanying notes, and our audited consolidated financial statements for the years ended December 31, 2020 and December 31, 2019. 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, we define EBITDA as earnings before interest, taxes, depreciation and amortization. In addition, we may refer to the term free cash flow, which we calculate as cash flow from operations less capital expenditures net of any proceeds from the disposition of capital assets. However, EBITDA and free cash flow are not terms that have specific meaning in accordance with IFRS, and may be calculated differently by other companies. The Company discloses EBITDA and free cash flow from time to time because these are useful indicators of operating performance and liquidity.

Additional information relating to our Company, including quarterly reports and our annual information form, is filed on SEDAR and can be viewed at [www.sedar.com](http://www.sedar.com) and our website [www.icesports.com](http://www.icesports.com).

The date of this MD&A is November 10, 2021.

### **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 reported in August 2021, the Company gradually resumed recreation facility operations during the summer and have operated in accordance with COVID-19 public health guidelines of each jurisdiction. While overall business volumes are below pre-pandemic levels due to customer sentiment regarding COVID-19, vaccination requirements, and labour supply, all facilities are now able to operate all surfaces for rentals, leagues, instructional programs, and tournaments. In addition, concession and sports store operations have also resumed.

During this period of transition, the effects of COVID-19 will continue to cause business fluctuations and management is aware that public health orders may include operating restrictions if legislated by health authorities. As a result, the Company has established measures to preserve the Company's resilience in managing the effects of a reduction in business activity. Measures taken to date include process changes to streamline labour and other operating costs, application for government subsidies, and collaboration with the Company's senior lenders to arrange additional credit facilities and covenant waivers. (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 full 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, 2021

- Completed sale of an inactive ice rink property and realized a gain of \$1.4 million and net proceeds of \$7.2 million to help replenish the Company's cash reserves;
- Generated revenue of \$12.6 million compared to \$9.4 million in 2020;
- With health restrictions gradually easing from mid-summer to early fall, Q3 EBITDA was \$3.1 million compared to \$0.3 million a year ago; and
- On July 1, 2021, Canlan Sports Libertyville, a newly acquired sportsplex in Illinois, commenced operations (see "**Review of Operations**").

## 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 11 of these facilities containing 1.3 million square feet of space situated on 153 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 three facilities under operating leases. We also manage two facilities on behalf of municipalities.

We operate primarily in the sports and recreation industry, with a focus on ice, turf and court sports. In typical years, 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:**

	<b>Facilities</b>	<b>Ice Surfaces</b>	<b>Indoor Turf Fields</b>	<b>Courts <sup>a</sup></b>	<b>Total Playing surfaces</b>
<b>Canada:</b>					
British Columbia	5	14	1	-	15
Saskatchewan	2	6	-	-	6
Manitoba	1	3	1	-	4
Ontario	6	20	2	11	33
	<b>14</b>	<b>43</b>	<b>4</b>	<b>11</b>	<b>58</b>
<b>USA:</b>					
Illinois	4	6	3 <sup>b</sup>	13	22
	<b>18</b>	<b>49</b>	<b>7</b>	<b>24</b>	<b>80</b>

**Note**

a) Includes indoor multi-sport hard courts and outdoor beach volleyball courts

b) This includes one FIFA regulation field (divisible into multiple fields)

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 \$3.52 to \$4.81 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:

- 1. Ice and field sales**  
Revenue from ice and field rentals, and internal programming.
- 2. Food and beverage**  
Sales from our licensed restaurants and concession operations within our facilities.
- 3. Sports stores**  
Sales and rental of sports equipment, apparel, and skate sharpening services.
- 4. Management and consulting**  
Fees from managing facilities owned by third parties and consulting engagements.
- 5. Sponsorship**  
Revenue from sponsorship and advertising sales.
- 6. Space rental**  
Rental of space within our facilities.

## Selected Financial Information

The following selected consolidated financial information is for the nine months ended and as at September 30, 2021, 2020 and 2019. This data should be read together with the unaudited condensed consolidated interim financial statements for the periods ended September 30, 2021, 2020, and 2019.

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)*

<b>As at and for the nine months ended September 30,</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Statement of Operations Data:</b>			
Total revenue	\$ 21,289	\$ 31,015	\$ 64,384
Government subsidy	6,408	3,625	-
Direct expenses <sup>(1)</sup>	(22,385)	(30,544)	(51,506)
General & administration expenses	(3,966)	(3,958)	(4,134)
<b>Earnings before the undernoted</b>	<b>1,346</b>	<b>138</b>	<b>8,744</b>
<b>Other expenses:</b>			
Depreciation	(5,838)	(5,990)	(5,966)
Finance costs	(1,987)	(1,776)	(1,943)
Foreign exchange gain (loss)	21	63	(30)
Gain (loss) on interest rate swap	310	(1,170)	(680)
Gain on sale of assets	1,500	2,244	1,601
Income tax recovery (expense)	956	1,679	(68)
<b>Net earnings (loss)</b>	<b>\$ (3,692)</b>	<b>\$ (4,812)</b>	<b>\$ 1,658</b>
<b>Other comprehensive income (loss)</b>	<b>(77)</b>	<b>1,122</b>	<b>(787)</b>
<b>Total comprehensive income (loss)</b>	<b>\$ (3,769)</b>	<b>\$ (3,690)</b>	<b>\$ 871</b>
Basic and fully diluted earnings (loss) per share	\$ (0.28)	\$ (0.36)	\$ 0.12
<b>Balance Sheet Data:</b>			
Cash and cash equivalents	\$ 17,175	\$ 9,384	\$ 14,681
Current assets (excluding cash, note receivable and assets held-for-sale)	3,120	4,404	5,775
Capital assets	99,179	101,198	105,201
Investment	350	-	-
Other assets	5,288	5,740	4,929
Assets held-for-sale	-	6,061	6,405
Note receivable	-	-	2,577
<b>Total assets</b>	<b>\$ 125,112</b>	<b>\$ 126,787</b>	<b>\$ 139,568</b>
Current liabilities, excluding debt	\$ 18,568	\$ 15,390	\$ 21,821
Mortgage debt	55,176	56,392	59,195
Lease liabilities	11,500	6,937	7,427
Deferred tax liabilities	1,929	3,374	2,447
<b>Total liabilities</b>	<b>87,173</b>	<b>82,093</b>	<b>90,890</b>
<b>Shareholders' equity</b>	<b>37,939</b>	<b>44,694</b>	<b>48,678</b>
	<b>\$ 125,112</b>	<b>\$ 126,787</b>	<b>\$ 139,568</b>
<b>Dividends declared</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,034</b>

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

## Review of Operations

### Three Months Ended September 30, 2021 Compared to Three Months Ended September 30, 2020

Q3 revenue of \$12.6 million increased by \$3.3 million or 34.9% as facilities expanded product offerings with the gradual easing of health restrictions in each region. During the quarter, facilities increased surface utilization in all locations with contract rentals as demand for ice rentals was strong and indoor recreation capacity limits were lifted. Facilities also adjusted league formats and were able to complete abbreviated summer seasons of hockey and soccer leagues. In addition, hockey tournament activity resumed and tournaments held were well attended, especially those focused on celebrating female hockey.

The month of September also marked the beginning of Canlan's largest program, the fall/winter season of the ASHL (Adult Safe Hockey League). League registrations filled to approximately 90% of pre-pandemic levels, demonstrating the continued strength of this product.

In July 2021, the Company also opened Canlan Sports Libertyville, a sportsplex located in Libertyville, Illinois that contains two boarded soccer pitches, a fitness centre, rock-climbing, nine sport courts and an outdoor baseball diamond. This facility is being leased from the Village of Libertyville as part of a two-year lease agreement that contains an option to purchase the complex that can be exercised during the lease term. The discounted value of future lease payments plus the option exercise cost has been recorded in the consolidated statement of financial position in accordance with accounting guidance, IFRS 16 – *Leases*. Although facility revenue was just ramping up during its opening quarter, operations have progressed as planned and management anticipates increased surface utilization in the fall/winter season.

Food and beverage and sports store operations, which have remained suspended since March 2020, were re-opened gradually during the quarter and revenue of \$0.5 million was generated. Management has adjusted restaurant menu offerings and are creating promotion initiatives to drive traffic back into its sports bars and sports stores during the busy fall/winter season.

In addition to facility operating revenue, the Company continued to qualify for the Canada Emergency Wage (CEWS) and Canada Emergency Rent (CERS) subsidies. Income from subsidies of \$1.7 million were \$0.5 million lower than 2020 as this assistance program was designed such that subsidies decrease as operating revenue increases back to normal levels. Government subsidies have been recorded as Other Income in the September 30, 2021 interim consolidated financial statements.

Total operating expenses of \$10.0 million remained consistent with prior year despite increased operating activity. Increases of labour and other variable expenses were offset by decreases in repair and maintenance (R&M) and COVID-related health & safety expenses. In 2020, a large supply of personal protective equipment was procured reducing this expense for 2021. In addition, the Company took advantage of the downtime in 2020 to complete many R&M projects that were not required this year.

General and administration (G&A) expenses of \$1.3 million remained consistent with prior year. After G&A expenses, earnings from operations was \$3.1 million for the quarter compared to \$0.3 million a year ago.

After G&A expenses, depreciation and finance costs totaled \$2.6 million compared to \$2.5 million in 2020, and a gain of \$1.5 million from the sale of an inactive ice rink property and other assets was recorded (see “**Liquidity and Capital Resources**”). Income before tax for the quarter was \$1.9 million compared to a loss of \$0.1 million.

After \$0.8 million of income tax expense, net income for the quarter was \$1.0 million or \$0.08 a share compared to a break-even quarter a year ago.

### **Nine Months Ended September 30, 2021 Compared to Nine Months Ended September 30, 2020**

Revenue by business segment:

*in thousands*

<b>Nine months ended September 30</b>	<b>2021</b>	<b>2020</b>
Ice and field sales	\$ 19,319	\$ 25,979
Food and beverage	316	2,600
Sports store	172	322
Sponsorship	286	619
Space rental	930	1,114
Management and consulting fees	201	194
Other	65	187
<b>Total revenue</b>	<b>\$ 21,289</b>	<b>\$ 31,015</b>

Total revenue of \$21.3 million decreased by \$9.7 million or 31.4% compared to 2020. In 2020, the Company experienced normal facility operations during most of Q1, a seasonally strong quarter for the Company. Facilities suspended operations midway through March 2020 due to the pandemic and then briefly reopened from June until October 2020 before having to close again. In 2021, health restrictions continued to significantly restrict operations for much of the first half of the year. During Q1 2021, U.S. operations gradually resumed, followed by western Canadian facilities by June. Ontario facilities then began to reopen the following month starting with ice rentals and very limited programming.

By September, all facilities had the full product range of rentals, leagues, and programs running with restaurant and proshop operations just starting to open up.

With revenue significantly lower than pre-pandemic levels throughout the nine months ended September 30, 2021, the Company continued to qualify for the CEWS and CERS assistance programs. Total income from these subsidies was \$6.4 million compared to \$3.6 million in 2020 and are recorded as other income in the statement of earnings and loss.

Total operating expenses of \$22.4 million decreased by \$8.2 million or 26.7% compared to 2020. With restricted activities during most of the period, all variable customer service expenses were lower, labour costs were minimized and only non-discretionary R&M expenses were incurred.

Total G&A expenses of \$4.0 million remained consistent with prior year. After G&A expenses, EBITDA was \$1.3 million compared to \$0.1 million in 2020.

Total depreciation expense was \$5.8 million compared to \$6.0 million a year ago, and net interest expense on debt and lease financing was \$2.0 million compared to \$1.8 million last year. In 2020, a significant unrealized loss on an interest rate swap contract was accounted for due to a sharp decrease in market interest rate. In 2021, a mark-to-market gain of \$0.3 million was recognized on this swap contract.

Aside from gains and expenses related to depreciation and financing, gains on asset sales in 2021 totaled \$1.5 million compared to \$2.2 million a year ago. The gain recognized in the current period principally related to the sale of an inactive ice rink property in Quebec while the 2020 gain on asset sale mainly resulted from the sale of surplus vacant land in Ontario.

After recording an income tax recovery of \$1.0 million (2020 - \$1.7 million), net loss for the period was \$3.7 million or \$0.28 a share, compared to a loss of \$4.8 million or \$0.36 a share in 2020.

## Earnings by Quarter

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

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

	2021			2020				2019
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Gross revenue	\$ 12,629	\$ 3,610	\$ 5,050	\$ 8,244	\$ 9,365	\$ 767	\$ 20,883	\$ 23,957
Government subsidy	1,707	2,262	2,439	2,746	2,242	1,383	-	-
Operating costs	(10,007)	(5,891)	(6,487)	(8,876)	(10,001)	(5,769)	(14,774)	(17,741)
	4,329	(19)	1,002	2,114	1,606	(3,619)	6,109	6,216
General & administration	(1,253)	(1,333)	(1,380)	(1,316)	(1,344)	(1,262)	(1,352)	(1,712)
<b>EBITDA</b>	<b>3,076</b>	<b>(1,352)</b>	<b>(378)</b>	<b>798</b>	<b>262</b>	<b>(4,881)</b>	<b>4,757</b>	<b>4,504</b>
Depreciation	(1,980)	(1,913)	(1,945)	(1,961)	(1,919)	(1,954)	(2,117)	(1,980)
Finance costs	(733)	(643)	(611)	(671)	(571)	(574)	(631)	(652)
Foreign exchange gain (loss)	3	(7)	25	(18)	(10)	(43)	116	(14)
Gain (loss) on interest rate swap	67	112	131	37	14	(128)	(1,056)	195
Gain on sale of assets	1,455	22	23	53	2,126	118	-	13
<b>Net earnings (loss) before taxes</b>	<b>1,888</b>	<b>(3,781)</b>	<b>(2,755)</b>	<b>(1,762)</b>	<b>(98)</b>	<b>(7,462)</b>	<b>1,069</b>	<b>2,066</b>
Income tax recovery (expense)	(843)	1,174	625	211	57	1,646	(24)	(1,276)
<b>Net earnings (loss) Earnings (loss) per share</b>	<b>\$ 1,045</b>	<b>\$ (2,607)</b>	<b>\$ (2,130)</b>	<b>\$ (1,551)</b>	<b>\$ (41)</b>	<b>\$ (5,816)</b>	<b>\$ 1,045</b>	<b>\$ 790</b>
	<b>\$ 0.08</b>	<b>\$ (0.20)</b>	<b>\$ (0.16)</b>	<b>\$ (0.12)</b>	<b>\$ (0.00)</b>	<b>\$ (0.44)</b>	<b>\$ 0.08</b>	<b>\$ 0.06</b>

## Liquidity and Capital Resources

Cash-on-hand at September 30, 2021 was \$17.2 million compared to \$7.5 million at December 31, 2020. The increase in cash was principally related to the receipt of net proceeds of \$7.2 million from an asset sale and the resumption of facility operations during Q3.

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

*in thousands*

<b>Nine months ended September 30</b>	<b>2021</b>	<b>2020</b>
Cash provided by (used in):		
Operations	\$ 4,756	\$ (8,267)
Financing	(2,022)	(2,200)
Investing	6,958	3,889
Foreign currency change	3	(199)
Dividends paid	-	(367)
Net cash flow	<u>\$ 9,695</u>	<u>\$ (7,144)</u>

Cash generated from operations was \$4.8 million compared to a net use of cash of \$8.3 million a year ago. The resumption of operations in all regions combined with the receipt of increased government subsidies (as compared to 2020) resulted in improved cash flow from operations.

Financing activities included scheduled debt and lease payments plus a draw of \$2.0 million on an available working capital credit line (see “**Review of Review of Liabilities and Shareholders’ Equity - Long-term Debt (3)**”).

Investing activities generated \$7.0 million of cash principally due to proceeds received from the completion of the sale of an inactive ice-rink property (“Les 4 Glaces”) in Quebec, an asset that had been classified as an asset-held-for-sale in the consolidated statement of financial position. The sale was completed on September 24, 2021 and yielded \$7.2 million in net proceeds that helped to replenish the Company’s cash reserves that had been reduced due to the pandemic. As a result, on October 13, 2021, the Company utilized \$5.0 million of its cash reserves to pay down a revolving portion of its long-term debt. The Company can redraw these funds for operations when required under the terms of the credit facility (see “**Review of Review of Liabilities and Shareholders’ Equity - Long-term Debt (2)**”).

In line with measures taken to preserve liquidity, discretionary capital projects and dividend payments continue to be put on hold.

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

*in thousands*

<b>Nine months ended September 30</b>	<b>2021</b>	<b>2020</b>
EBITDA	\$ 1,346	\$ 138
Changes in working capital items	5,361	(7,039)
Net interest expense	(1,892)	(1,822)
Income tax effect included in changes in working capital	-	64
Unrealized foreign currency gain (loss)	(59)	392
Cash flow from operations	<u>\$ 4,756</u>	<u>\$ (8,267)</u>

Despite the stronger liquidity position resulting from the sale of Les 4 Glaces and the reopening of facilities, management is cognizant of the dynamic situation of the COVID-19 pandemic and the level of uncertainty that remains. Therefore, management continues to be focused on liquidity preservation and maintaining the Company's resilience during this period of transition. This involves continued management of all the measures discussed above that have been taken to mitigate the challenges posed by the pandemic. Management is also focused on being prepared to respond appropriately including the need to expand, contract or adjust operations in accordance with government regulations and the status of the pandemic.

Given the Company's cash position at period end, the measures taken to preserve cash, and the Company's ability to access additional credit facilities (see "**Review of Liabilities and Shareholders Equity – Long-term Debt**"), management believes the Company is well-positioned to address further adverse effects of the pandemic. However, the full 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.

## Review of Assets

The table below summarizes the Company's asset base:

<i>in thousands</i>	<b>September 30, 2021</b>	December 31, 2020
Properties	\$ 99,179	\$ 98,771
Cash	17,175	7,480
Accounts receivable	1,095	2,434
Inventory	609	662
Prepaid expenses and other assets	2,282	1,905
Assets held-for-sale	-	6,053
Investment	350	350
Deferred income taxes	4,422	3,829
	<u>\$ 125,112</u>	<u>\$ 121,484</u>

As at September 30, 2021, total properties of \$99.2 million increased by \$0.4 million. Scheduled depreciation decreased total Properties; however, this was offset by the increase to properties resulting from lease of Canlan Sports Libertyville (see “**Review of Operations - Three Months Ended September 30, 2021 Compared to Three Months Ended September 30, 2020**”). Despite reduced business activities caused by the pandemic, management’s review of the recoverability of property, plant, and equipment continues to indicate that there has been no impairment in the recoverability of properties at September 30, 2021.

The balance of assets held-for-sale was relieved as the sale of Les 4 Glaces was completed prior to September 30, 2021 (see “**Liquidity and Capital Resources**”).

## Review of Liabilities and Shareholders’ Equity

The table below summarizes the Company’s capital structure:

<i>in thousands</i>	<b>September 30, 2021</b>	December 31, 2020
Debt	\$ 55,176	\$ 56,168
Deferred revenue and customer deposits	10,950	6,159
Accounts payable	7,387	7,683
Lease payable - right-of-use assets	11,500	6,933
Deferred income taxes	1,929	2,292
Financial liability held for trading	231	541
	<b>87,173</b>	79,776
Shareholders' equity	<b>37,939</b>	41,708
	<b>\$ 125,112</b>	\$ 121,484

At September 30, 2021, total long-term debt of \$55.2 million decreased by \$1.0 million. Principal repayments were made as scheduled plus a draw of \$2.0 million was made from an available working capital credit line (see “**Long-term Debt (3)**” below) in July 2021. On October 13, 2021, subsequent to the receipt of sale proceeds from the sale of Les 4 Glaces, the Company repaid \$5.0 million of a revolving portion of its long-term debt (see “**Long-term Debt (2)**” below).

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, 2021, customer deposits totaled \$11.0 million compared to \$6.2 million at the end of 2020 and represented amounts paid in advance for surface rentals, sports leagues, and instructional programs.

At quarter end, leases payable related to equipment lease financing and recreation facility lease agreements was \$11.5 million compared to \$6.9 million on December 31, 2020. Lease payments were made as scheduled but the increase is principally due to the addition of the lease on Canlan Sports Libertyville (see “**Review of Operations - Three Months Ended September 30, 2021 Compared to Three Months Ended September 30, 2020**”).

## Long-Term Debt

As at September 30, 2021, 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, 2021, the balance outstanding was \$28.0 million;
- 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, 2021, the balance outstanding was \$16.8 million. On October 13, 2021, the Company repaid \$5.0 million of the revolving portion of the loan facility;
- 3) \$20.0 million revolving capital expenditure loan amortized over 15 years, maturing on May 25, 2023. To strengthen the Company's liquidity position during the pandemic, \$10.0 million of this revolving credit facility was made available for working capital purposes until December 31, 2021 and the rate of interest accrued on amounts drawn on this working capital credit facility was set at Prime rate plus 1.00% per annum payable monthly. On July 8, 2021, \$2.0 million was drawn from this \$10.0 million working capital credit facility. At September 30, 2021, the balance outstanding of the \$20.0 million credit facility was \$4.8 million. Of this amount, \$0.8 million accrues interest at BA rate plus 2.10% per annum payable monthly, \$2.1 million accrues interest at Prime rate plus 0.50% per annum payable monthly, and \$2.0 million accrues interest at Prime rate plus 1.00% per annum payable monthly. In addition, the revolving capital expenditure loan will revert to \$20.0 million less amounts drawn for capital expenditures and will be available until May 2023;
- 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, 2021, the balance outstanding was \$5.8 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's credit facilities reference financial covenants, some of which have been waived by the Company's senior lenders in light of the effects that the COVID-19 pandemic has had on business operations. The following table summarizes the status of the covenants related to agreements reached between the Company and its senior lenders as at September 30, 2021:

<b>Debt Covenant</b>	<b>Test Frequency</b>	<b>Status as at September 30, 2021</b>
Consolidated debt service coverage ratio	Annually at December 31	Waived by lenders for December 31, 2021.
Consolidated debt to tangible net worth ratio	Quarterly at March 31, June 30, September 30, and December 31	Waived by lender for all quarters ended and ending in fiscal 2021.
Debt service coverage ratio calculated on combined trailing-12-month operating earnings of two facilities operating in United States	Quarterly at March 31, June 30, September 30, and December 31	Waived by lender for quarter ended September 30, 2021. For the quarter ending December 31, 2021, covenant amended such that the debt service coverage ratio shall be calculated for the fiscal quarter ending December 31, 2021 rather than on a trailing-12-month basis.
Minimum liquidity of cash-on-hand combined with available operating credit facilities	Quarterly at March 31, June 30, September 30, and December 31	In compliance at September 30, 2021. Temporary covenant added during fiscal 2020 in light of waivers of other covenants. Covenant to be removed when covenant waivers are removed on December 31, 2021.

## Share Capital

The total and weighted average number of shares issued and outstanding at September 30, 2021 and December 31, 2020 was 13,337,448.

No new shares have been issued from treasury since November 2004, and the Company 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.

In addition, a Director of the Company is the Chairman of a vendor from which the Company purchases services in the normal course of business. There were no purchases from this vendor for the nine months ended September 30, 2021 (2020 - \$15,000).

## 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 receivable (i)	Amortized cost	2
Financial assets measured at fair value:		
Investment (iv)	FVOCI	3
Financial liabilities measured at fair value:		
Interest rate swap (iii)	Financial liabilities at 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, 2021, a gain of \$0.3 million (a loss of \$1.2 million in 2020) was recognized.

(iv) The carrying value of the investment is considered by management to approximate its fair value as the entity in which the Company has invested is a start-up entity.

The Company does not have held-to-maturity investments at September 30, 2021. The Company had no “other comprehensive income or loss” transactions related to financial instruments during the period ended September 30, 2021 and no opening or closing balances for accumulated other comprehensive income or loss related to financial instruments.

## Disclosure Controls and Procedures

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

Based on current securities legislation in Canada, our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are required to certify that they have assessed the effectiveness of our disclosure controls and procedures as at September 30, 2021.

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, 2021. 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, 2021.

## **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 during normal operations, and the addition of risk factors arising from the COVID-19 pandemic that originated in 2020, 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 (that are sensitive to seasonality), and the Company's ability to obtain additional financing, or re-financing. During fiscal 2020 and the period ended September 30, 2021, the COVID-19 pandemic resulted in temporary suspensions and resumptions of facility operations, public health orders that limited business activity, and presented the need for the Company to create an exposure control program to help prevent or limit the spread of disease.

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 may 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.
- The Company continuously evaluates asset profitability and cost of capital to optimize return on capital.
- During the period where business operations have been impacted by the COVID-19 pandemic, the Company has arranged for debt covenant waivers and/or amendments.

## **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, approximately 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.

## **Climate Change**

Canlan, like many other businesses, is subject to climate-change-related risks. Government regulations and public perception may adversely impact Canlan's operations. Climate change may also increase the frequency and intensity of severe weather events, which may negatively impact our facilities, such as cause property damage or other disruption to the Company's operations. Natural disasters, climate change impacts and disruptive events may impact our operations, customer satisfaction and client experience, and may result in increased insurance premiums or deductibles, and the decrease in the availability of, or loss of, coverage.

## **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 short-term and long-term compensation and incentive programs 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**

Long-term debt of \$27.4 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 \$28.0 million or 50.6% 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 2,293,800 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.

## **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, 2020 and December 31, 2019, and Note 3 to our condensed consolidated interim financial statements for the period ended September 30, 2021. 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:

### **Recoverability of Property, Plant and Equipment - Facilities**

At each reporting date, the Company performs an assessment for indicators of impairment for each cash-generating unit. If any such indication exists, the Company estimates the cash-generating unit's recoverable amount based on the greater of its value in use and its fair value less costs to sell. When the carrying amount exceeds the recoverable amount, an impairment loss is recognized in an amount equal to the excess. In determining the recoverable amount of the cash-generating units under the value in use method, significant assumptions include estimated revenue and expense growth rates, pre-tax discount rates, and useful lives of property, plant and equipment. In determining the recoverable amount of the cash-generating units under the fair value less costs to sell method, significant assumptions include the capitalization rate and the estimated value per square feet of the recreational property.

### **COVID-19**

Given the continuously evolving circumstances surrounding COVID-19, it is difficult to predict with certainty the nature, extent and duration of COVID-19, and the duration and intensity of resulting business disruptions and related financial, social and public health impacts. Such effects could be adverse and material, including their potential effects on the Company's business, operations and financial performance both in the short-term and long-term. Estimates and assumptions that are most subject to increased uncertainty caused by the COVID-19 pandemic relate to future revenues and profitability, impairment of assets, and liquidity. The amounts recorded in these consolidated financial statements are based on the latest reliable information available to management at the time the consolidated financial statements were prepared where that information reflects conditions at the date of the consolidated financial statements. However, given the heightened level of uncertainty caused by COVID-19, these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

### **Useful Lives of Property, Plant and Equipment**

Property, plant, and equipment are depreciated on a straight-line basis over their estimated useful life and residual values which are determined through exercise of

judgment. Approximately 79% of the Company's total assets are comprised of recreational properties. The 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 expensed.

### **Deferred Income Tax**

Deferred income tax assets and liabilities require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize or recognize net deferred tax assets, if any, at the reporting date could be impacted.

**Ivan Wu**  
**Chief Financial Officer**