



# CANLAN ICE SPORTS CORP.

2010 ANNUAL REPORT

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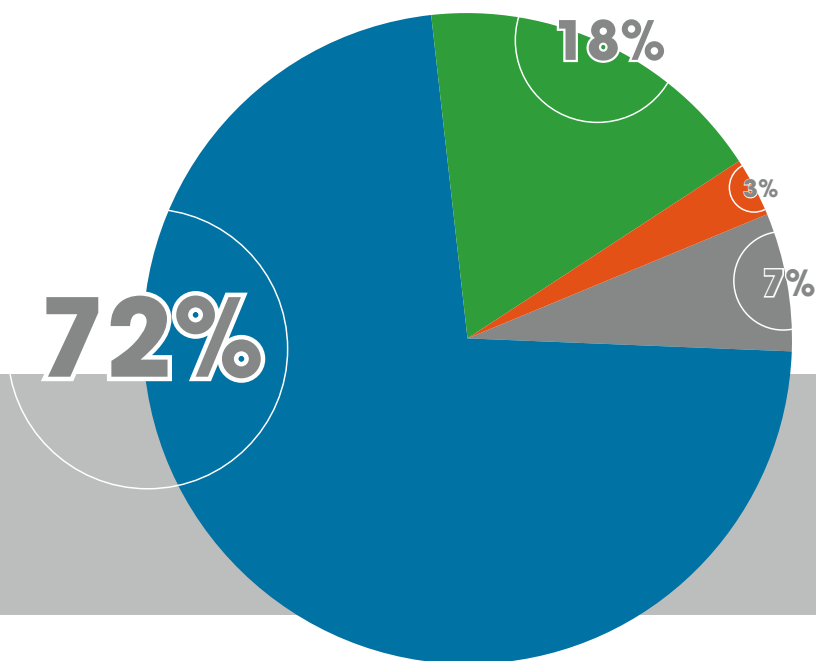
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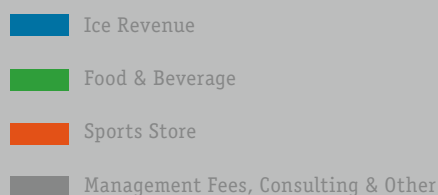
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# Financial Highlights

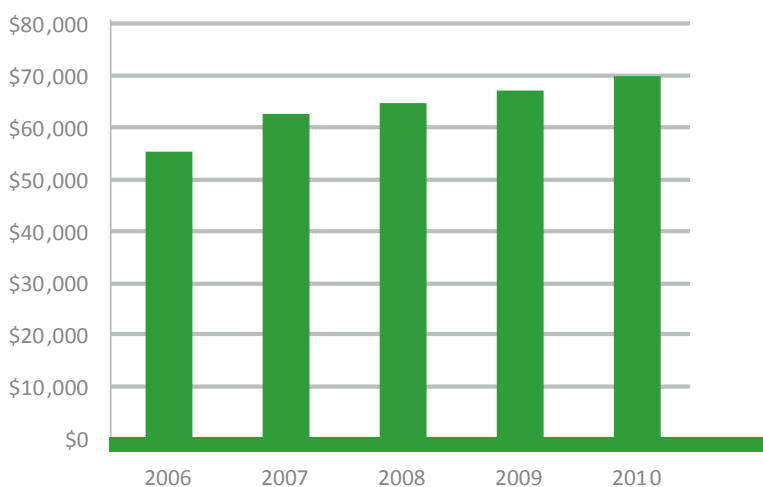


## Revenue Breakdown

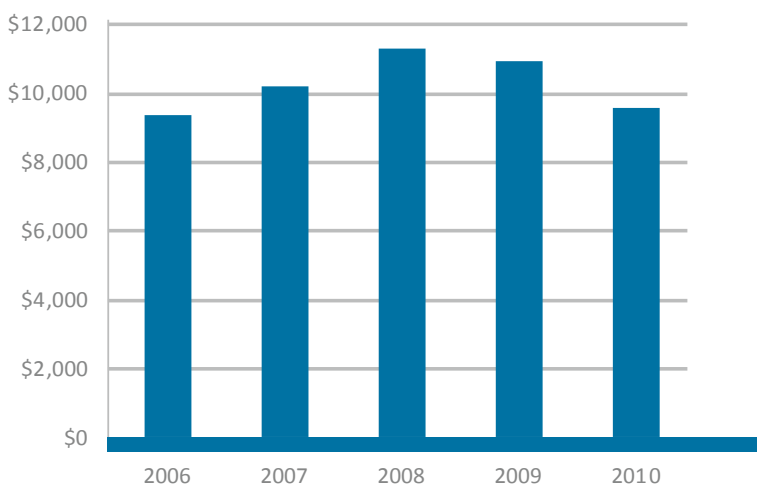


In thousands, except per share information	2010	2009	2008
Revenue	\$69,849	\$67,196	\$64,669
Earnings before interest, taxes and amortization	9,531	10,915	11,236
Net earnings before taxes	1,841	3,333	2,149
Net earnings	707	2,734	3,827
Total assets	110,513	113,548	114,714
Shareholders equity	46,680	46,173	43,439
Earnings per common share	\$0.05	\$0.20	\$0.290
Shareholders equity per share	\$3.50	\$3.46	\$3.260
Number of common shares outstanding	13,337,448	13,337,448	13,337,448

## Revenue



## EBITA





Joey St-Aubin, Chief Executive Officer

## Message to Shareholders

2010 brought with it the residual effects of the economic slowdown. While reduced spending was a key contributor to lower than expected sales in certain markets, new competition made possible by government stimulus was our biggest nemesis. We saw new facilities constructed in Winnipeg, Regina and Oakville all of which had an immediate impact on our business. As we expected, most private competitors chose to reduce pricing as a means to retain customers, while we chose to increase value to maintain current pricing levels. This strategy may have cost us customers in the short run, but it is our belief that the quality and value that we offer will be key enablers in winning customers back in fairly short order.

In 2010 we stuck to our plan of providing quality products with a focus on excellent customer service. To further demonstrate our confidence to our team members and to our shareholders we introduced a new company sponsored RRSP program and announced the payment of our first dividend, which was paid on January 17, 2011. We believe that this was a wise decision knowing full well that it's during times like these that loyalty and hard work are at their peak.

Having sustained two consecutive recessionary years gives us great confidence going forward. While others were focused solely on cutting costs, we chose to invest in our people, our structure and our strategies in preparation for the opportunities that the back end of this recession would provide. Our predictions of failing ice related businesses are evidenced across many target markets in the United States and we have restructured our team in anticipation of this to take advantage of the opportunistic climate.

In March 2011 we refinanced term debt that was coming due in September, 2011, for another three years. In addition, we have arranged a \$5 million revolving credit facility to be used for acquisitions. This critical piece was needed to allow us to fully activate our "Partnership Solutions" strategy in both Canada and the United States. In Q4 2010 we expanded our "Partnership Solutions" division, which focuses on expanding our facility portfolio through management, lease, lease to own and acquisition. We achieved this by adding real estate development expertise and P3 solutions that has allowed us to expand our service offerings to Canadian municipalities beyond our traditional facility management approach. In the United States we established strategic partnerships with developers in order to provide us access to a wider range of future projects.

Knowing where we were, where we are and where we are going, allows me to state with confidence that the best has yet to come.

On behalf of the senior management team, I wish to thank all Canlan team members for their passion and customer focus, and our investors for believing in the Canlan model. 2011 is going to be a great year! In addition, I would like to thank Mr. Ted Cohen for his valuable contributions over his 12 year tenure on our Board of Directors. Mr. Cohen will be retiring from Canlan's Board at our June 15, 2011 annual general meeting.

Joey St-Aubin  
President & CEO

# Just A Few Of Our Strengths



The Adult Safe Hockey League is a professionally managed recreational hockey League. In 2010, the ASHL generated \$24.2 million in total registration revenue which represents 47% of our total ice sales. ASHL revenue increased by 6% in 2010.



The Hockey and Skating Academies operate throughout the year and have a variety of weekly classes for both youth and adults. In 2010 we had 23,800 participants in these programs and generated \$4.6 million in gross revenue, which is 9% of our total ice sales.



In 2010 we had 11,000 players registered in five different age categories. These leagues generated \$2.7 million in gross revenue, which is 5% of our total ice sales. This non-contact league is specifically designed to enable players to keep their conditioning level high and their skills sharp through the off season.



In 2010 Canlan Classic Tournaments hosted 51 tournament events, with a total revenue of 1.8 million. CCT is now considered one of the best choices for value and experience in the hockey tournament circuit for boys, girls, men, women and co-ed.



The Adult Indoor Soccer League ("AISL") has over 3,000 players registered in both locations and the league operates in two separate seasons during the year. Indoor soccer generated \$1.1 million in total revenue from our two indoor facilities.

# Mission

Canlan Ice Sports will be the recognized leader in North America in the development, operations and ownership of multi-purpose recreation and entertainment facilities.

We will provide highly desirable products and services in clean, safe, fun and friendly facilities, aiming to exceed the diverse recreational needs of sports enthusiasts of all ages, gender and ethnicity within the markets that we serve.

We will be the brand of choice to our customers because of our excellent operations & service, the employer of choice to our team members because of the importance we place on them, and a model of integrity for suppliers, partners, and the communities we support because we fulfill our commitments.

Success will be measured by loyalty, retention, service, carbon footprint, profitability and shareholder value.

## BRITISH COLUMBIA

Canlan Ice Sports 8-Rinks, 8-Rink Complex  
Canlan Ice Sports North Shore, 3-Rink Complex  
Canlan Ice Sports Langley Twin Rinks, 2-Rink Complex  
Canlan Ice Sports South Cariboo Rec. Centre, 1-Rink Complex  
Armstrong / Spallumcheen Sports Centre, 1-Rink Complex

## ALBERTA

River Cree Ice Sports Complex (Edmonton), 2-Rink Complex

## SASKATCHEWAN

Canlan Ice Sports Jemini (Saskatoon), 4-Rink Complex  
Canlan Ice Sports Agriplace (Saskatoon), 2-Rink Complex  
Canlan Ice Sports Regina, 2-Rink Complex

## MANITOBA

Canlan Ice Sports Winnipeg, 4-Rink Complex

## ONTARIO

Canlan Ice Sports Oakville, 4-Rink Complex  
Canlan Ice Sports Etobicoke, 4-Rink Complex  
Canlan Ice Sports Scarborough, 4-Rink Complex  
Canlan Ice Sports York, 6-Rink Complex  
Canlan Ice Sports Oshawa, 2-Rink Complex  
Canlan Ice Sports Victoria Park, 2-Rink Complex

## QUEBEC

Canlan Ice Sports Les 4 Glaces (Brossard), 4-Rink Complex  
Canlan Ice Sports Les 2 Glaces (Candiac), 2-Rink Complex

## INDIANA

Lutheran Health Sports Center, 3-Rink Complex  
McMillen Ice Arena, 1-Rink Complex

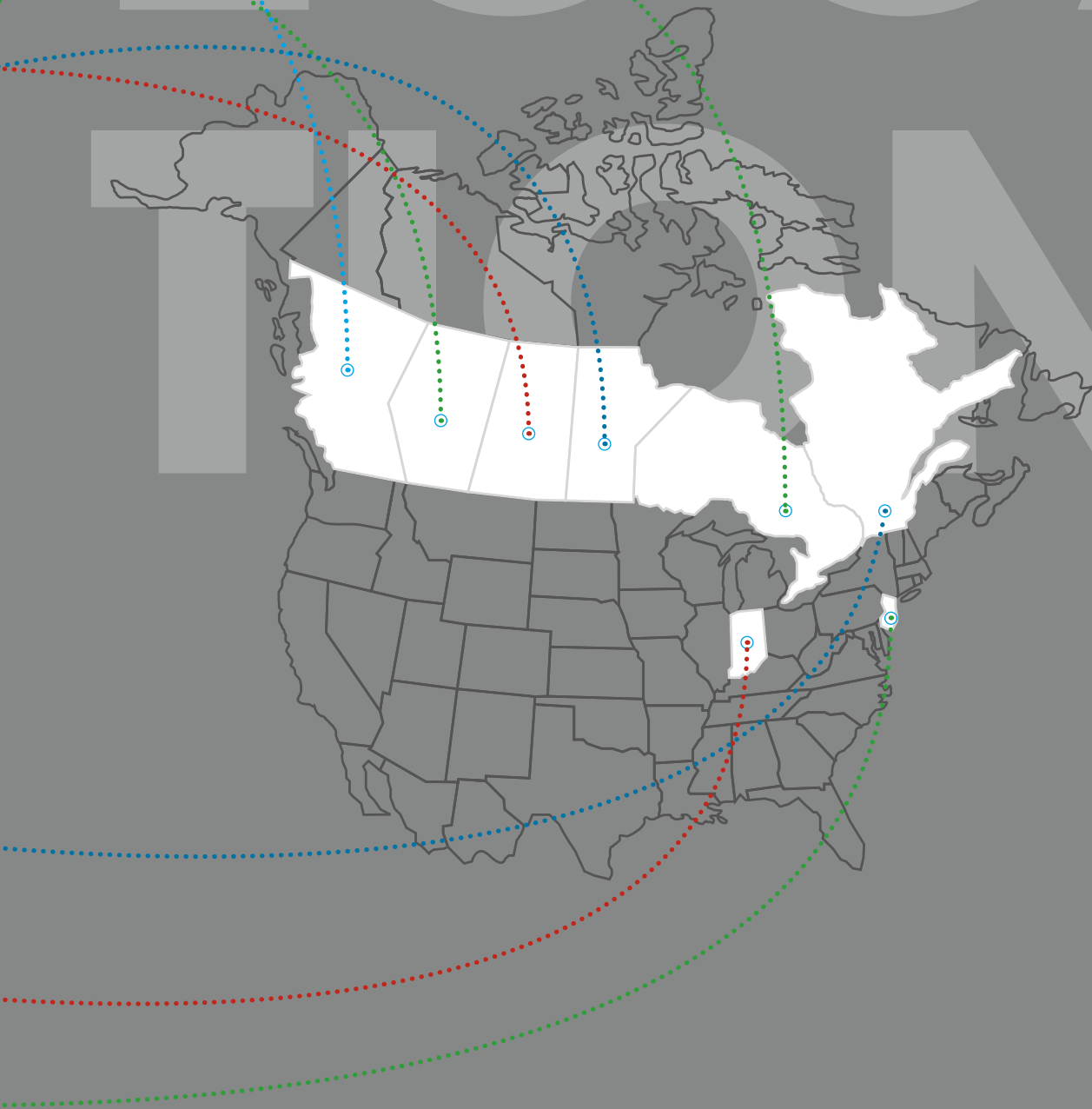
## NEW JERSEY

Canlan Ice Sports Vineland, 2-Rink Complex

# Our Locations



*Mark Faubert, Senior VP,  
Operations*







Michael Gellard, Chief Financial Officer

The following management discussion and analysis (MD&A) summarizes significant factors affecting the consolidated operating results and financial condition of Canlan Ice Sports Corp. ("Canlan", "the Company", "we" "our" or "us") for the years ended December 31, 2010 and 2009. This document should be read in conjunction with our audited consolidated financial statements for the years ended December 31, 2010 and 2009 and accompanying notes. The results reported herein have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are presented in Canadian dollars.

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

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

The date of this MD&A is March 22, 2011.

## Overall Performance

### 2010 financial highlights:

- We generated \$69.8 million in gross revenue (2009 - \$67.2 million), an increase of \$2.7 million or 3.9%.
- On a same store basis, we increased our revenue by 1.9%.
- We recorded earnings before interest, taxes, amortization, and a gain held for trading of \$9.5 million (2009 - \$10.9 million), a decrease of \$1.4 million, or 12.8%.
- We recorded net earnings before tax of \$1.8 million (2009 - \$3.3 million).
- We recorded net earnings of \$0.7 million, (2009 - \$2.7 million), or \$0.05 per share, (2009 - \$0.20 per share).
- Ended the year with \$8.9 million in cash, compared to \$9.2 million at the end of fiscal 2009.
- We spent \$2.2 million on capital improvements on our owned and leased (2009 - \$1.8 million) facilities.
- We reduced interest bearing debt by \$2.7 million (2009 - \$4.1 million, including redemption of preferred shares)

### 2010 significant achievements:

On February 14, 2010 we commenced operations in Fort Wayne, Indiana. This state of the art 128,000 sq. ft facility contains three full-size ice surfaces. Other amenities include a fully licensed restaurant and a full service sports store. We have agreed to a 20 year lease that includes an option to purchase the facility for US\$9.3 million up to February 2015, and US\$9.8 million between February 2015 and February 2017.

In connection with our new Fort Wayne facility, we entered into our first long term building naming rights agreement. The new Fort Wayne facility will be known as the Lutheran Health Sports Centre for the next 10 years.

Our tournament division was very active and had a record year. In 2010 Canlan Classic Tournaments organized 51 tournaments, most of which were in Canlan-owned buildings, that attracted 1,979 teams.

During the year we reorganized our national marketing department, and established a brand team whose primary responsibility is to develop new marketing strategies and increase revenue through a team of aggressive sales people and brand managers.

On December 6, 2010, with the approval of the Company's Board of Directors, we declared the introduction of a quarterly dividend in the amount of \$0.015 per common share. This first dividend was paid on January 17, 2011 to shareholders of record on December 15, 2010.

## Business of the Company

Canlan Ice Sports Corp. is a leading operator of recreational and leisure facilities. The Company's first venture into the ice rink industry was in 1986, when it acquired a facility known as Columbia 4 Rinks located in Burnaby B.C. This facility was expanded in 1995 to an eight rink facility, which is now known as Burnaby 8 Rinks. The Company's head office is located in the Burnaby facility and it maintains a second corporate office at its Ice Sports York location in Toronto. We currently have approximately 963 full time and part time employees working in our facilities and two corporate offices.

During the period from 1995 to 1998 Canlan built six multi-pad facilities located in B.C. (1), Ontario (4) and Quebec (1). All of these facilities are still owned by the Company. In addition to constructing six facilities, we purchased a further seven buildings since acquiring Columbia 4 Rinks, one of which we sold in 2006.

As at the date of this MD&A the Company owns, leases or manages a network of 21 facilities in Canada and the United States containing 61 full sized ice sheets and two indoor soccer fields. Other recreation amenities contained in Canlan's facilities include curling rinks, beach volleyball courts, and softball diamonds. The Company owns 11 of these facilities containing 1.2 million square feet of space; we operate two facilities under long-term land lease arrangements and a further four facilities under operating leases. We currently manage four facilities on behalf of third party owners from both the private and public sectors.

### Change in facility portfolio from prior year:

- On December 31, 2010, a management contract located in Monroe, Michigan matured and was not renewed.

Our total facility count, including all owned, leased and managed properties, is as follows:

	Number of Facilities	Surfaces
2010	21	63
2009	22	65
2008	22	65
2007	22	64
2006	22	64

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

	Number of playing surfaces	Operating structure
<b>Canada:</b>		
<b>British Columbia</b>		
Burnaby 8 Rinks	8	Owned
Ice Sports North Shore	3	Long term land lease
Ice Sports Langley Twin Rinks	2	Operating lease
South Cariboo Recreation Center - 100 Mile House	1	Managed
Armstrong/Spallumcheen Parks & Recreation	1	Managed
<b>Alberta</b> - River Cree Twin Rinks - Edmonton	2	Managed
<b>Saskatchewan</b>		
Ice Sports Jemini - Saskatoon	4	Owned
Ice Sports Agriplace - Saskatoon	2	Owned
Ice Sports Regina	2	Owned
<b>Manitoba</b> - Ice Sports Winnipeg	4	Owned
<b>Ontario</b>		
Ice Sports Scarborough	4	Owned
Ice Sports Etobicoke	4	Owned
Ice Sports Oakville	4	Owned
Ice Sports Oshawa	2	Owned
Ice Sports York	6	Long term land lease
Ice Sports Victoria Park	2	Operating lease
<b>Quebec</b>		
Les Quatre Glaces - Brossard	4	Owned
Les Deux Glaces - Candiac	2	Owned
	<b>57</b>	
<b>USA:</b>		
Indiana		
Ice Sports Fort Wayne	3	Operating lease
Ice Sports McMillen - Fort Wayne	1	Managed
New Jersey - Ice Sports Vineland	2	Operating lease
	<b>6</b>	
	<b>63</b>	

# Management Discussion & Analysis

## About Canlan

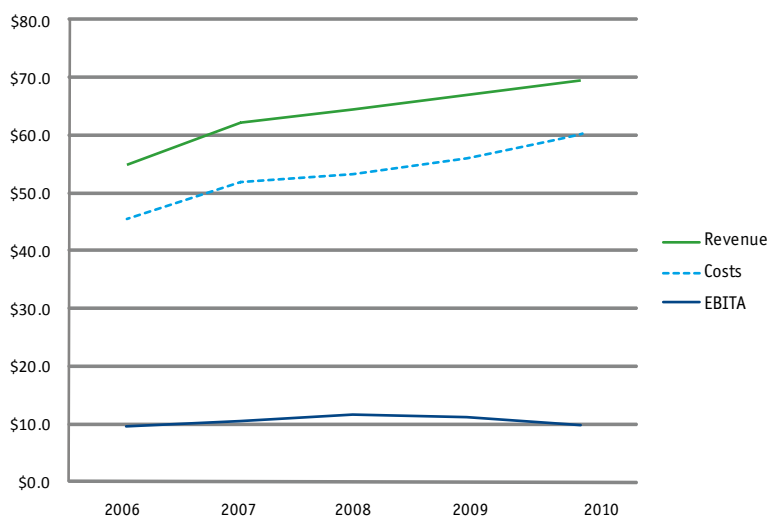
Canlan is a publicly traded Canadian Company with shares listed on the Toronto Stock Exchange (TSX) under the trading symbol ICE. Canlan's shares were first listed for trading on the TSX on March 1, 1990.

There are 13,337,448 shares outstanding that have traded in the \$1.95 to \$2.25 range since December 31, 2010. The Company has not issued any shares since November 2004.

The Company derives revenue from six primary sources:

- Ice sales and internal programming
- Food and beverage
- Sports stores
- Tournaments
- Management & consulting
- Space rental & other

### Five year Revenue, Costs and EBITA trend:



## Vision, Core Business and Strategy

Canlan will strive to be:

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

The Company's goal is to leverage its leadership position in the North American ice rink industry by continuing to focus on both organic growth and expansion through acquisition and long term lease. By providing quality products and services in clean safe facilities, we still have capacity to grow our existing revenue base by providing value added services to our customers. While our largest single market segment is the adult recreational hockey player, we are committed to increasing our market share of other segments in our current markets, including skating

programs, hockey and soccer programs, specialty sports programs, various sports camps, and hockey tournaments for both youth and adults.

We determined that our success will be evaluated by the following indicators:

1. Growth in revenue while sustaining operating margins.
2. Return on investment.
3. Brand awareness
4. Customer loyalty
5. Employee satisfaction
6. Quality control

We have developed six critical success factors supported by specific project objectives that the entire organization has been introduced to:

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

**Customer Experience** - Exceptional service delivered by well-trained and motivated staff that results in consistently great experiences.

**New Ventures & Innovation** - Proactively and aggressively seek out new opportunities that profitably drive new business.

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

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

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

Since developing the strategic plan in the summer of 2009, many of the initiatives connected with these critical success factors have commenced. Particularly ones connected with operational excellence where we have seen reductions in energy consumption. In addition we have recently hired a Vice President of Sales, Marketing and Service which is a newly created position connected to the sales and marketing initiative.

## The Marketplace and Our Competition

Canlan's current marketplace is recreation, and we understand that we are competing for disposable dollars with other sports and activities that can have significantly lower participation costs. Our largest customer segment is adult hockey players. This segment of our business represents 47% of our total ice sales, or \$24.2 million. It also represents 35% of total revenue.

Canlan's largest competition is from municipalities and private league operators. Local governments cater primarily to their constituents who are usually made up of minor hockey and other amateur user groups. There are many private league operators in Canada that purchase ice time from local rinks and run adult leagues. Unless an oversupply situation exists in a jurisdiction, we do not believe that competition from municipalities and local league operators will be significant enough to impede our growth. Canlan has many advantages, the largest one being the fact that we own our buildings and control all of the ice inventory in them, enabling us to schedule ice times efficiently and provide quality ice times where deemed most appropriate. In addition, our facilities are generally full-service ice sports & entertainment centers where we incorporate retail and food & beverage services into the customers' experience.

## Competitive Strengths

The Company believes that it has the following competitive advantages:

**Our Employees.** Canlan currently has 963 full and part time dedicated employees in Canada and the USA. Through training and internal communications, we have established Canlan as the place to work in our industry and we attract the most talented people in the industry. Our employees are focused on providing quality customer service and a safe environment. To enhance our ability to attract and retain quality employees, Canlan established a Company sponsored group RRSP program on January 1, 2010.

**Adult Safe Hockey League (ASHL).** The Company operates the largest and most established adult hockey league in North America. The ASHL is our premier brand. It operates year-round and has over 70,000 players registered in various divisions based on skill and age.

**Geographic coverage.** Canlan currently owns and operates facilities in six provinces in Canada and two U.S. states giving us broad geographic coverage. Our geographic diversity and wide customer base helped Canlan withstand the effects of the economic downturn.

**Executive team.** Canlan's executive team is comprised of nine individuals who are members of the management committee. This group meets regularly to review past and present performance, as well as continually assessing future growth strategies. These individuals have extensive expertise in operations, sales, marketing, customer service, finance & accounting and human resources.

**Barriers to entry in the market.** We have seen a significant increase in construction costs making the replacement cost of our buildings much higher than their original cost. The increased cost of construction will likely make privately funded ice rink projects less viable, reducing the competitive risk.

**Buying Power.** As a result of being geographically diversified, and having significant product volumes in a number of categories, we are able to negotiate national supply agreements for preferred pricing.

## Selected Financial Information

The following selected consolidated financial information as at December 31, 2010, 2009 and 2008 and each of the years then ended has been derived from our audited consolidated financial statements. This data should be read together with those financial statements. Our consolidated financial statements are prepared in accordance with Canadian GAAP, and are stated in Canadian dollars.

in thousands	Three months ended December 31,		Year ended December 31,		
	2010	2009	2010	2009	2008
<b>Statement of Operations Data:</b>					
Total revenue (1)	\$20,016	\$19,563	\$69,849	\$67,196	\$64,669
Direct expenses (2)	(14,051)	(13,285)	(55,565)	(52,142)	(49,768)
General & administration expenses	(1,277)	(855)	(4,753)	(4,139)	(3,665)
<b>EBITA</b>	4,688	5,423	9,531	10,915	11,236
<b>Other expenses:</b>					
Amortization	(1,233)	(1,143)	(4,813)	(4,467)	(4,224)
Interest	(814)	(826)	(3,296)	(3,542)	(3,944)
Other	133	75	420	427	(919)
Taxes	(1,320)	(482)	(1,135)	(599)	1,678
<b>Net Earnings</b>	\$1,454	\$3,047	\$707	\$2,734	\$3,827
Basic and diluted earnings per share	\$0.11	\$0.23	\$0.05	\$0.20	\$0.29
<b>Balance Sheet Data:</b>					
Cash			\$8,903	\$9,213	\$7,588
Working capital (excluding cash)			3,016	3,365	3,228
Capital assets			94,984	96,778	98,993
Other assets			3,610	4,192	4,905
<b>Total assets</b>			\$110,513	\$113,548	\$114,714
Current liabilities, excluding debt			\$16,511	\$17,947	\$17,624
Mortgage debt			44,022	46,595	49,105
Equipment leases			1,455	1,446	1,639
Future income taxes			1,845	1,387	1,507
Preferred shares (classified as debt)			-	-	1,400
<b>Total liabilities</b>			63,833	67,375	71,275
<b>Shareholders' equity</b>			46,680	46,173	43,439
			\$110,513	\$113,548	\$114,714

(1) Total revenue is comprised of ice rentals, food & beverage sales, sports store sales, sponsorship, advertising and management fees.

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

## Review of Fiscal 2010 Operations

### Revenue

Total revenue increased by \$2.7 million or 3.9% to \$69.8 million compared to \$67.2 million in 2009.

After eliminating the revenue contribution from our new facility in Fort Wayne, IN we grew our revenue by \$1.2 million or 1.8%, on a same store basis.

Approximately 74% or \$51.8 million (2009 - \$48.8 million) of the Company's total revenue is generated from ice sales and in-house programs. Approximately 67% of our total ice sales are generated through in-house programs that Canlan has developed. This gives us a distinct advantage as we have the flexibility to program our ice inventory based on demand.

### *The Adult Safe Hockey League*

Our largest and most successful program is the Adult Safe Hockey League ("ASHL"). The ASHL operates in two seasons, the fall/winter season which is from September to April and the spring/summer season which operates from May to August each year. In 2010, the ASHL generated \$24.2 million in total registration revenue which represents 47% of our total ice sales. (2009: \$22.8 million, 47% of ice sales). ASHL revenue increased by 6% in 2010. While there was a decrease in team counts in the Toronto and Winnipeg markets due to economic conditions and competition from other league operators, we did increase the number of teams, overall, playing in the ASHL fall/winter season by 25 teams compared to prior season. Fourteen of these new teams came from our new facility in Fort Wayne. All of our adult leagues in western Canada experienced increases in fall/winter league registrations, and we established a new 37 team satellite league playing in the new Richmond Oval.

In 2010 we saw our spring/summer league grow by 50 teams over 2009. Twenty-three of these new teams came from our US locations in Fort Wayne and Vineland.

The ASHL is a full service adult recreational league for both men and women with a variety of divisions based on age and/or skill level. Services provided include scheduling, officiating, on-line statistics, accident insurance, prize and various levels of championship play including our coveted North American Championship. The league is an integral part of our business and generated 35% of the Company's total revenue in 2010, compared to 34% in 2009.

We have over 70,000 adult hockey players registered in our winter and a summer leagues combined.

### *The Youth Hockey League and 3 on 3*

In addition to the ASHL, Canlan also operates a variety of youth leagues in the spring and summer seasons. These leagues are designed for minor

hockey aged players who wish to continue to play after the regular fall/winter season ends. We offer both the traditional "5 on 5" formats through the Youth Hockey League, as well as a "3 on 3" league for those players looking for something a little different.

In 2010 we had 11,000 players (2009 - 10,100) registered in five different age categories. These leagues generated \$2.7 million in gross revenue, which is 5% of our total ice sales.

### *Camp Canlan, Hockey and Skating Academies*

Canlan offers a variety of developmental programs through our branded Camp Canlan and Hockey and Skating Academies. Camp Canlan operates primarily in the summer months and is directed at the youth market, with a focus on hockey skills development.

The Hockey and Skating Academies operate throughout the year and have a variety of weekly classes for both youth and adults. Classes include everything from learn to skate programs to power skating and team tactics.

In 2010 we had 23,800 participants (2009 - 18,200) in these programs and generated \$4.6 million in gross revenue, which is 9% of our total ice sales.

### *Other ice revenue*

After providing the necessary allocation of ice times to operate our in-house programs, we rent ice to third parties. Contract users are required to sign seasonal contracts for the fall/winter and spring/summer seasons and are charged a fixed hourly rate. The ice time is used by private groups, minor hockey associations, third party tournaments and camp operators as well as some adult leagues. Overall, third party contracts accounted for 27% of our total ice sales in 2010, or \$14 million. As our in-house programs develop and require more ice time we expect revenue from contract users to decrease to approximately 25% of our total ice sales.

### *Indoor Soccer*

Canlan operates two indoor soccer facilities, one in Burnaby built in 2000, and a second field in Winnipeg, built in 2006. Our approach to increasing the utilization of these synthetic turf fields is similar to how we approach the ASHL. We have developed successful indoor soccer leagues at both locations that consume all evening times. The Adult Indoor Soccer League ("AISL") has over 3,000 players registered in both locations and the league operates in two separate seasons during the year, with a similar business plan to the ASHL. In addition, we work with local soccer associations in Burnaby and Winnipeg to develop training programs for their members.

We generated \$1.1 million in total revenue from our two indoor facilities, which is unchanged from 2009.

## Management Discussion & Analysis

Revenue generated from activity on our ice rinks and soccer fields:

in thousands	2010		2009	
Adult hockey leagues	\$24,185	47%	\$22,766	47%
3rd party contract holders	13,561	27%	13,468	28%
Hockey & skating schools	4,601	9%	4,227	9%
Public programs & spot rentals	3,116	6%	2,599	6%
Youth hockey leagues	2,698	5%	2,542	5%
Soccer field rentals	1,122	2%	1,078	2%
Figure skating	859	2%	708	1%
In house tournaments	482	1%	679	1%
Other	719	1%	711	1%
	<b>\$51,343</b>	<b>100%</b>	<b>\$48,778</b>	<b>100%</b>

### Food & Beverage

Revenue from our 15 restaurant operations was \$11.8 million in 2010, unchanged from 2009. On a same store basis we saw our restaurant sales decrease by \$0.3 million, or 3%, a similar decline to 2009. Food and beverage sales accounted for 17% of total revenue, 1% lower than in 2009.

We have seen a decrease in overall same store sales in our restaurants, which is consistent with the industry experience in the last 12 months. We have noticed reduced traffic in our restaurants as a result of lower team counts in the ASHL in Ontario. We believe spending habits of our customers have also been impacted by changes in driving laws and the introduction of the HST in both British Columbia and Ontario. We operate all our restaurants in-house to ensure our customers receive quality products and service. The product mix between food sales and liquor sales has changed slightly this year to 56% and 44% respectively, compared to 55% and 45% in previous years.

### Sports Stores

During the year, Canlan operated ten sports stores that occupy approximately 6,600 square feet in our buildings. The Company rents to third party store operators under long term leases in another four facilities. Our sports stores generated \$1.9 million in gross sales in 2010 compared to \$2 million in 2009. Sports store revenue represents 3% of our total revenue. Skate sharpening revenue was \$0.6 million, similar to 2009.

### Management Contracts

Management services revenue is comprised of fees for managing ice rink facilities on behalf of owners and one-time consulting engagements. Our management services division generated management fee revenue in 2010 totaling \$0.3 million, compared to \$0.4 million in 2009. Currently we have four active management contracts, one less than in 2009.

### Tournament Operations

The Canlan Classic Tournaments (CCT) was formed ten years ago to grow our in-house tournament business in the seasonally slow summer months, and reduce our reliance on third party tournament operators. This division continues to grow, and in 2010 held 51 tournaments (2009 – 46 tournaments) and generated \$1.8 million in total revenue, compared to \$1.6 million in 2009. While the majority of the CCT events are held in Canlan facilities, which increase our own ice and retail utilization, the division is diversifying and holds a number of tournaments outside our buildings, including Florida and Las Vegas.

## Other revenue

Other sources of revenue totaled \$2.3 million in 2010 compared to \$2.6 million in 2009. We often rent space within our buildings to complimentary types of business. We also include revenue from renting out our entire facility located in Candiac, Quebec, pursuant to the terms of an operating lease. In 2010 we recorded \$1 million in facility and space rental revenue which is similar to 2009.

Another significant component of other revenue is sponsorship revenue. During the year we had a dedicated advertising & sponsorship sales person whose sole responsibility was to develop relationships with a variety of national companies and sell our many opportunities. In 2010 we generated \$1 million in sponsorship revenue compared to \$0.7 million in 2009, a 31% increase.

Revenue by business segment and geographic region:

in thousands	2010		2009	
	Sales	% of total	Sales	% of total
Ice Sales	\$51,343	74.1%	\$48,778	72.6%
Restaurant and Lounge	11,767	16.8%	11,804	17.5%
Sports Store	1,960	2.8%	1,990	3.0%
Tournament Division	1,785	2.6%	1,589	2.4%
Management Fees & Consulting	286	0.4%	390	0.6%
Other	2,708	3.3%	2,645	3.9%
	<b>\$69,849</b>	<b>100.0%</b>	<b>\$67,196</b>	<b>100.0%</b>

in thousands	2010		2009	
	Sales	% of total	Sales	% of total
<b>Canada:</b>				
British Columbia	\$17,005	24%	\$16,738	24.9%
Alberta	\$139	<1%	\$181	0.3%
Saskatchewan	6,967	10%	6,868	10.2%
Manitoba	3,768	5%	3,903	5.8%
Ontario	33,816	48%	33,309	49.5%
Quebec	5,615	8%	5,278	7.9%
New Brunswick	-	-%	45	0.1%
	<b>67,310</b>	<b>96.4%</b>	<b>66,322</b>	<b>98.7%</b>
<b>USA</b>	<b>2,539</b>	<b>3.6%</b>	<b>874</b>	<b>1.3%</b>
	<b>\$69,849</b>	<b>100.0%</b>	<b>\$67,196</b>	<b>100.0%</b>



## Management Discussion & Analysis

### Revenue by Quarter

The Company recorded the following revenue by quarter in 2010. The revenue stream is seasonal with 57% of the Company's revenue being generated in the fall and winter months (first and fourth quarters) and 43% in the spring and summer season (second and third quarters).

in thousands	2010		2009	
	Revenue	% of total	Revenue	% of total
Q1	\$19,873	28%	\$19,445	29%
Q2	15,745	23%	14,606	22%
Q3	14,215	20%	13,582	20%
Q4	20,016	29%	19,563	29%
	\$69,849	100%	\$67,196	100%

### Direct Operating Costs

Total ice rink operating costs were \$55.6 million in 2010 compared to \$52.1 million in 2009, an increase of 6.7%.

In 2010, ice rink operating costs, including cost of goods sold in our restaurants and sports stores, represented 80% of revenue compared to 78% in 2010. Also included in operating costs are facility and land lease payments related to five of our facilities. In 2010 rent payments totaled \$1.4 million, compared to \$1.1 million in 2009; the increase was related to the addition of Fort Wayne during the year.

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

in thousands	2010		2009	
	Costs	% of total	Costs	% of total
Q1	\$14,025	25%	\$13,463	26%
Q2	14,320	26%	13,036	25%
Q3	13,169	24%	12,358	24%
Q4	14,051	25%	13,285	25%
	\$55,565	100%	\$52,142	100%

Our five largest operating expenses, excluding corporate general and administration (G & A) expenses are as follows:

in thousands	2010	2009
Wages	\$19,842	\$17,810
Utilities	6,833	6,456
League operating costs	6,246	5,869
Repairs and maintenance	3,032	2,860
Property taxes	2,488	2,579
	\$38,441	\$35,574

## *Wages*

Labour is our largest expense and represents 36% of our direct operating costs, compared to 34% in 2009. We continually monitor labour rates to stay competitive in all markets. Four of our facilities are subject to collective agreements with two different unions. On January 1, 2010 we established a company sponsored RRSP program that allows eligible employees to contribute up to 4% of their wages to a retirement savings plan, which the Company matches.

## *Utilities*

Utility expenses include the cost of electricity, gas and water. Total utility expense in 2010 represented 12% of our operating costs, similar to 2009.

While we have entered into long term purchase contracts for electricity and gas when possible and have been successful in reducing consumption, we have seen an increase in our utility costs. As a result of the record low spot market for electricity, our electricity expense in Ontario has been subject to an extra charge called the Provincial Benefit. This is an additional charge being levied to close the gap between the spot market price and the price required for Ontario power producers to ensure the reliability of providing adequate generating capacity for Ontario. In spite of hydro purchase contracts Canlan entered into several years ago to stabilize our purchase price, we do not benefit from the low spot market for electricity, but are still subject to this additional charge.

In 2010, the additional electricity expense, as a result of the Ontario Provincial Benefit levy, was \$0.5 million similar to what was charged in 2009.

In 2008 we hired a full time Director of Energy Management whose primary responsibility is to reduce energy consumption and manage our capital assets. We have seen the benefits of this new position. In 2010 we reduced our energy consumption, on a same store basis, by 1.6%. In financial terms we have saved \$147,000 as a result of reduced consumption. In addition, we have been able to take advantage of financial incentives offered by Provincial energy conservation programs where the Provincial entities pay for a portion of capital costs spent on upgrading plant equipment that result in energy savings. In 2010, Canlan spent \$0.4 million on such capital projects and received \$0.1 million in financial incentives. We expect these projects, along with continued improvements in our best-practice guides, to result in more benefits in 2011 and beyond.

## *League Operating Costs*

Our league operating costs are variable and are directly related to volume in the ASHL. League expenses include the cost of officiating, accident insurance, statistics and prizing, in addition to ice rental costs for our two satellite leagues, located in Richmond BC, and Hamilton ON.

## *Repairs and Maintenance*

In 2010, we spent \$3.0 million maintaining our buildings and equipment, which is consistent with 2009. This includes maintaining our fleet of 51 ice resurfacers, refrigeration equipment, building envelopes and parking lots. We use a computerized facility asset management system to ensure our preventative maintenance program is kept current and to aid in planning future capital projects.

## *Property Taxes*

Canlan pays property tax in the various jurisdictions in which our seventeen owned and leased buildings are situated. In 2010 we paid \$2.5 million to local municipalities on account of property taxes. The amount paid in 2010 decreased as a result of a successful property tax appeal related to our facility in Vineland, New Jersey. The successful appeal was retroactive to 2009, and we recovered \$0.1 million of property taxes paid related to 2009. Property tax assessments are reviewed annually to ensure our properties are assessed appropriately.

## *Operating Margin before General and Administration expenses*

Operating margin is calculated as revenue less operating expenses expressed as a percentage of revenue. Operating margin for 2010 was 20.4%, a decrease from 2009 which was 22.4%. The reduction in our operating margin was primarily a result of lower revenue growth compared to the increase in operating costs. As previously discussed, our same store revenue increased by 1.8% over last year, while our same store operating costs have increased by 3%.

A contributing factor to lower than historical same store revenue growth was due to our strategy to keep price increases to a minimum. Price increases were kept low to help offset the effects of HST in British Columbia and Ontario and the lingering impact of the economic downturn from 2009.

## *General and Administration Expenses*

Corporate G&A expenses were \$4.8 million in 2010, compared to \$4.1 million in 2009, representing an increase of \$0.7 million, or 16.5%. G & A represents 6.9% of total revenue in 2010, compared to 6.2% in 2009. Wages and related benefits accounted for 66% (\$3.2 million) of our corporate general and administration expenses in 2010 compared to 63% (\$2.6 million) in 2009.

Corporate wages include compensation expense related to the Stock Appreciation Rights (SARs) plan, which was established in 2005 and made available to the Company's executives and directors. We expensed \$0.4 million in 2010 related to the SARs program, compared to \$0.2 million in 2009. A net change of \$0.2 million, that was a direct result of the increase in market value of TSX: ICE.

## Management Discussion & Analysis

During the year the Company made various personnel changes the cost of which has been expensed in 2010. The Company also established a Company sponsored RRSP program and a Director retirement account. The combined corporate cost of these two programs was \$0.2 million and was expensed in 2010.

Historically, the Company has been liable for Provincial Capital taxes in Quebec, Ontario and Manitoba. These jurisdictions began phasing out capital taxes in 2010, thereby reducing our capital tax expense by approximately \$0.1 million.

Other expenses included in G&A are as follows:

- Professional fees
- Listing fees and investor relations
- Director fees
- Travel
- Office

Our administration expenses are generally consistent throughout the year.

in thousands	2010		2009	
	Expense	% of total	Expense	% of total
Q1	\$1,163	24%	\$959	23%
Q2	1,127	24%	1,140	27%
Q3	1,186	25%	1,185	29%
Q4	1,277	27%	855	21%
	<b>\$4,753</b>	<b>100%</b>	<b>\$4,139</b>	<b>100%</b>

### EBITA

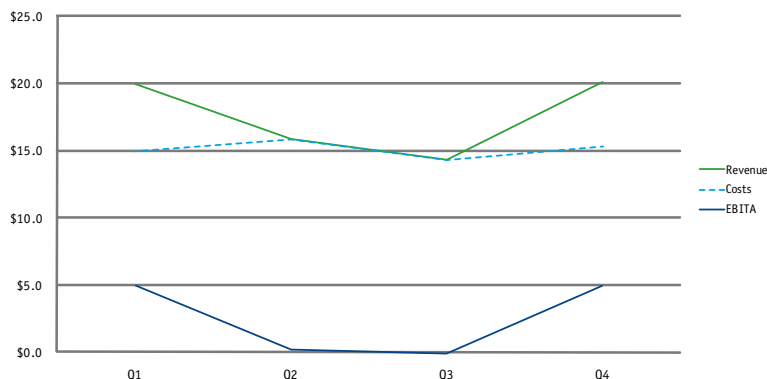
After accounting for ice rink operating costs of \$55.6 million (2009: \$52.1 million) and G&A expenses of \$4.8 million (2009: \$4.1 million), earnings before Interest, taxes and Amortization (EBITA) and gain on financial instruments decreased by \$1.5 million to \$9.5 million, a decrease of 13%.

### EBITA by Quarter

The Company recorded the following EBITA by quarter in 2010 and 2009:

in thousands	2010		2009	
	EBITA	% of total	EBITA	% of total
Q1	\$4,685	49%	\$5,023	46%
Q2	298	3%	430	4%
Q3	(140)	(1%)	39	-
Q4	4,688	49%	5,423	50%
	<b>\$9,531</b>	<b>100%</b>	<b>\$10,915</b>	<b>100%</b>

As demonstrated by the accompanying chart, and consistent with our quarterly revenue stream, our industry is extremely seasonal. The Company generates the vast majority of its operating profit during the fall and winter seasons (first and fourth quarters) that produce 57% (2009 - 58%) of our total revenue. This seasonality contributes to quarterly variability of our earnings because a significant portion of our operating costs are relatively fixed.



## Gross Margin

Gross margin is calculated as revenue less operating and general and administration expenses expressed as a percentage of revenue. Gross margin for 2010 was 13.6% compared to 16.2% in 2009.

## Comments on US operations

Currently we are operating two multi pad facilities in the United States.

Our newest building is located in Fort Wayne, Indiana and commenced operations in February 2010. During the year much attention was placed on ramping up facility operations and marketing this brand new facility to the community. As a result of a mid season start up, revenue was lower than planned and expenses were as expected which resulted in operating losses in its first year of operations. Our lease agreement did provide for rent abatement in year 1, as a result of the delayed opening. Management believes that our Fort Wayne facility will approach break even in 2011, and begin to contribute positive earnings shortly thereafter.

Our second US facility is located in Vineland, New Jersey. We commenced operations in September 2008, pursuant to a 52 month operating lease. While the operating results of this two-pad facility improved over the prior year, it still has not reached breakeven as a result of lower than expected revenue. Management continues to explore new ways to increase utilization in this building.

## Review of 2010 Non-operating Expenses

### Amortization

Amortization expense of \$4.8 million in 2010, an increase of \$0.3 million due to asset additions included the leasehold improvements in our Fort Wayne facility.

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

### Interest Expense

Interest expense related to the financing of our facilities and equipment leases decreased by 7% to \$3.3 million from \$3.5 million in 2009 as a result of scheduled principal reductions.

A breakdown of our interest expense is as follows:

in thousands	2010	2009
Mortgage interest	\$3,095	\$3,197
Equipment lease interest	105	123
Dividend on preferred shares	-	126
Amortization of deferred financing costs and other	96	96
	<b>\$3,296</b>	<b>\$3,542</b>

The preferred shares issued as part of the financing of the York acquisition in 2006 included a 12% dividend, paid quarterly, which was recorded as interest expense, pursuant to the Canadian Institute of Chartered Accountants (CICA) accounting standards. The Company redeemed the remaining 1.4 million 12% preferred shares on September 30, 2009, and paid the final dividend on that date.

At year end, the Company had interest bearing, mortgage secured debt totaling \$44.3 million (2009 - \$47 million).

The Company has fixed the interest rate on 87% of its mortgage debt, or \$38.7 million at a weighted average rate of 6.74%. The remaining debt, totaling \$5.7 million has a variable interest rate of prime plus 1.25%.

Costs related to debt financing are amortized using the effective interest rate method in accordance with GAAP and classified as interest expense. In 2010 this amounted to \$0.1 million, same as 2009.

## Management Discussion & Analysis

### *Loss on held-for-trading financial liabilities*

As part of the \$50 million refinancing that was completed on July 31, 2008 the Company entered into an interest rate swap to fix the interest rate on \$13 million of the loan for a term of three years. The accounting for this interest rate swap is subject to rules for financial instruments pursuant to section 3855 of the CICA handbook. The fair value of this instrument of \$0.2 million (2009 - \$0.6 million) has been presented as a current liability. The reduction in the fair value of this liability from the prior year is \$0.3 million. This expense recovery, although unrealized, has been fully recognized in the current year.

## Net Earnings before Income Taxes

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Net earnings before income taxes were \$1.8 million in 2010 compared to \$3.3 million in 2009; a decrease of \$1.5 million, similar to the reduction in EBITA. The 2010 net earnings results include a \$0.3 million (2009 - \$0.4 million) recovery of unrealized losses related to the interest rate swap described above.

## Taxes

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In 2010, we reviewed and updated our assumptions regarding our future income tax asset to reflect the various tax pools still available to offset future income taxes. As a result of utilizing these tax pools related to tax loss carry forwards, capital cost allowance, cumulative eligible capital and a deferred revenue deductions, we are not liable to pay taxes for 2010. Similar to the prior year, the Company has adjusted its future tax benefit as we have determined that the Company will benefit from its non-capital loss carry forwards and available tax pools in 2011 and beyond. The expected net future tax benefit from utilizing these available tax pools has been adjusted to \$1.3 million, net of a valuation allowance for losses which originated in the USA. This decrease in the available tax pools resulted in a tax expense \$1.1 million for the year ended December 31, 2010, compared to a tax expense of \$0.6 million in 2009.

The Company has non-capital loss carry forwards available to offset future income taxes in the amount of \$4.7 million. The majority of these remaining losses originated in the USA and can be used to offset any future taxable income earned in the USA. The Company has recorded a full valuation allowance for these US tax losses.

## Net Earnings

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Net earnings after tax for the year ended December 31, 2010 was \$0.7 million or \$0.05 per share, compared to net earnings of \$2.7 million in 2009 or \$0.20 per share.

## Summary of Operations

in thousands	2010	2009	2008
<b>Revenue</b>			
Ice rinks and management contracts	\$69,849	\$67,196	\$64,669
<b>Expenses</b>			
Ice rinks	55,565	52,142	49,768
Earnings before general & administration	14,284	15,054	14,901
General & administration	4,753	4,139	3,665
<b>EBITA</b>	<b>9,531</b>	10,915	11,236
Amortization	4,813	4,467	4,274
Interest	3,296	3,542	3,894
Loss on held for trading liability	(341)	(365)	933
Other	(78)	(62)	(14)
	<b>7,690</b>	7,582	9,087
<b>Net earnings before taxes</b>	<b>1,841</b>	3,333	2,149
Taxes, net of future tax benefit	1,134	599	(1,678)
<b>Net earnings from operations</b>	<b>\$707</b>	\$2,734	\$3,827
Gross margin before general & administration	20%	22%	23%
Administration as a percentage of revenue	7%	6%	6%
EBITA as a percentage of revenue	14%	16%	17%

## Summary of Quarterly Results

The following tables present our unaudited consolidated quarterly results of operations for each of the last eight fiscal quarters. This data has been derived from our unaudited quarterly consolidated financial statements which are prepared on the same basis as our annual audited financial statements.

in thousands	2010				Total
	Q1	Q2	Q3	Q4	
Gross revenue	\$19,873	\$15,745	\$14,215	\$20,016	\$69,849
Operating costs	(14,025)	(14,320)	(13,169)	(14,051)	(55,565)
	5,848	1,425	1,046	5,965	14,284
General & administration	(1,163)	(1,127)	(1,186)	(1,277)	(4,753)
<b>EBITA</b>	<b>4,685</b>	<b>298</b>	<b>(140)</b>	<b>4,688</b>	<b>9,531</b>
Amortization	(1,198)	(1,172)	(1,210)	(1,233)	(4,813)
Interest	(806)	(849)	(827)	(814)	(3,296)
Other	108	68	111	132	419
<b>Net earnings (loss) before taxes and other</b>	<b>2,789</b>	<b>(1,655)</b>	<b>(2,066)</b>	<b>2,773</b>	<b>1,841</b>
Income taxes and other	(787)	422	550	(1,319)	(1,134)
<b>Net earnings (loss)</b>	<b>\$2,002</b>	<b>\$(1,233)</b>	<b>\$(1,516)</b>	<b>\$1,454</b>	<b>\$707</b>
<b>Earnings (loss) per share</b>	<b>\$0.14</b>	<b>\$(0.09)</b>	<b>\$(0.11)</b>	<b>\$0.11</b>	<b>\$0.05</b>

## Management Discussion & Analysis

in thousands	2009				Total
	Q1	Q2	Q3	Q4	
Gross revenue	\$19,445	\$14,606	\$13,582	\$19,563	\$67,196
Operating costs	(13,463)	(13,036)	(12,358)	(13,285)	(52,142)
	5,982	1,570	1,224	6,278	15,054
General & administration	(959)	(1,140)	(1,185)	(855)	(4,139)
<b>EBITA</b>	<b>5,023</b>	<b>430</b>	<b>39</b>	<b>5,423</b>	<b>10,915</b>
Amortization	(1,102)	(1,105)	(1,117)	(1,143)	(4,467)
Interest	(918)	(890)	(908)	(826)	(3,542)
Other	43	213	96	75	427
<b>Net earnings (loss) before taxes and other</b>	<b>3,046</b>	<b>(1,352)</b>	<b>(1,890)</b>	<b>3,529</b>	<b>3,333</b>
Income taxes and other	(1,064)	418	529	(482)	(599)
<b>Net earnings (loss)</b>	<b>\$1,982</b>	<b>\$(934)</b>	<b>\$(1,361)</b>	<b>\$3,047</b>	<b>\$2,734</b>
<b>Earnings (loss) per share</b>	<b>\$0.15</b>	<b>\$(0.07)</b>	<b>\$(0.10)</b>	<b>\$0.23</b>	<b>\$0.20</b>

Our business is highly seasonal in terms of when our revenue is being generated, which is demonstrated by the two year quarterly review above. 57% of our revenue is generated in the winter months. While our revenue is seasonal, our operating costs are relatively fixed, and therefore our quarterly earnings fluctuate significantly during the year. The Company reported EBITA of \$9.3 million in Q1 and Q4 combined, compared to just \$0.2 million in Q2 and Q3. In terms of net earnings, the Company has continually reported net losses in the spring and summer months.

## 2010 Fourth Quarter Results

In Q4, the Company generated its highest quarterly revenue in its history, a total of \$20 million. This represents an increase of 2% compared to \$19.6 million in the same quarter last year.

We currently have 2,733 teams registered across Canada and the USA for the 2010/11 ASHL winter season, compared to 2,728 registered for the prior year. The ASHL represents 47% of our total ice sales, and continues to be our largest earnings contributor.

Operating earnings before G&A expenses was \$6.0 million in the quarter compared to \$6.3 million in 2009.

After recording G&A expenses of \$1.3 million (2009 - \$0.9 million) EBITA for the fourth quarter of 2010 was \$4.7 million compared to \$5.4 million in 2009.

After recording interest and depreciation totaling \$2.0 million and some other non operating expenses, net earnings before taxes was \$2.8 million compared to \$3.5 million in the fourth quarter of 2009.

After adjusting for income taxes, net earnings were \$1.5 million in the fourth quarter of 2010, or \$0.11 per share, compared to \$3.0 million in 2009 or \$0.22 per share.

in thousands	Three months ended December 31	
	2010	2009
Statement of Operations Data:		
Total revenue	\$20,016	\$19,563
Direct expenses	(14,051)	(13,285)
	5,965	6,278
General & administration expenses	(1,277)	(855)
EBITA	4,688	5,423
Other expenses:		
Amortization	(1,233)	(1,143)
Interest	(814)	(826)
Other	133	75
Taxes	(1,320)	(482)
Net Earnings	\$1,454	\$3,047
Basic and diluted earnings per share	\$0.11	\$0.23

## Review of Assets

The total book value of the Company's assets as at December 31, 2010 was \$110 million compared to \$113 million at December 31, 2009.

The table below summarizes the Company's asset base:

in thousands	2010	2009
Ice rink properties	\$94,128	\$95,922
Cash	8,903	9,213
Accounts receivable	1,519	1,845
Inventory	1,041	1,024
Prepaid expenses and other assets	895	841
Land held for ice rink development	856	856
Future income taxes	3,171	3,847
	\$110,513	\$113,548

Property, plant and equipment makes up 86% of our total asset base is comprised of land, building and equipment. During the year we spent \$1.8 million on a variety of capital expenditure projects to renovate and improve our ice rink facilities using cash on hand. In addition we spent \$0.5 million on leasehold improvements related to our newest facility in

Fort Wayne. The Company also leased five new ice resurfacing machines during the year. These expenditures, together with scheduled amortization of our assets, resulted in a net decrease to the book value of our ice rink properties.

We expect to spend up to \$2.0 million on capital expenditures annually in the foreseeable future as part of our long term capital plan.

## Review of Liabilities and Shareholders Equity

The table below summarizes the Company's capital structure:

in thousands	2010	2009
Mortgages payable	\$44,022	\$46,595
Deferred revenue and customer deposits	11,022	12,019
Accounts payable	5,262	5,360
Capital leases	1,455	1,446
Future income taxes	1,845	1,387
Financial liability held for trading	227	568
	63,833	67,375
Shareholders' equity	46,680	46,173
	\$110,513	\$113,548
Shareholders' equity per common share	\$3.50	\$3.46

Total interest-bearing debt, which includes mortgages payable, preferred shares, and capital leases totaled \$45.5 million as at December 31, 2010, compared to \$48 million at the end of fiscal 2009, a net decrease of \$2.5 million. For financial statement presentation, our long-term debt is recorded net of related transaction costs, pursuant to the effective interest rate method of accounting for deferred financing costs.

### Mortgages

At December 31, 2010, total loans consist of three credit facilities, and has a combined annual debt service of \$5.8 million. Our annual principal reduction based on scheduled mortgage repayments will be \$2.7 million in 2011.

Specific terms of the three credit facilities are as follows:

- \$30 million loan maturing July 15, 2018, fixed interest rate of 6.79% per annum, amortized over 20 years with interest payable monthly and seasonal principal payments of \$375,000 per month from September 15 to December 15 annually.



## Management Discussion & Analysis

- \$13 million loan maturing September 30, 2011, variable interest rate of Prime plus 1.25%, amortized over 15 years with blended monthly payments. The Company has entered into an interest rate swap agreement to fix the interest rate on the principal borrowed at a rate of 4.12% per annum, plus applicable stamping fee at 2.5%. The interest rate for this loan has been fixed at 6.62%.
- \$7 million loan maturing September 30, 2011, variable interest rate of Prime plus 1.25%, amortized over 12 years with blended monthly payments. The prime rate is currently 3%.

On March 22, 2011, the two credit facilities that mature on September 30, 2011 were renewed by the Company's Bank; therefore, they now mature on September 30, 2014. The interest rate and other terms of the renewed loans are similar to the current terms.

In addition, the Bank also provided a \$5 million revolving loan that the Company can use as bridge financing for potential future property acquisitions.

We are in full compliance with all our debt covenants as at December 31, 2010.

### Customer Deposits and Deferred Revenue

The largest single component of our current liabilities is comprised of deferred revenue related to league registrations and customer deposits received in advance which totaled \$11 million as at December 31, 2010 (2009 - \$12 million). We recognize revenue as the ice is used; many of the seasonal contracts and league registrations are paid in advance as are league registrations.

### Capital Leases

We use capital leases to finance the acquisition of various types of heavy equipment used in our facilities as well as ice resurfacers. In 2010 we acquired five new ice resurfacers and installed a new dehumidification system at Ice Sports Oshawa. The majority of our equipment leases have a term of five years.

## Liquidity and Capital Resources

Canlan's cash balance as at December 31, 2010 was \$8.9 million, a decrease of \$0.3 million from December 31, 2009. During the year we reduced our mortgage debt by \$2.6 million, and spent \$2.3 million on capital expenditures.

### Summarized statement of cash flows:

in thousands	2010	2009	2008
Cash inflows and (outflows) by activity			
Operating activities	\$5,428	\$8,050	\$8,513
Financing activities	(3,308)	(4,592)	(3,159)
Investing activities	(2,430)	(1,833)	(2,336)
	(310)	1,625	3,018
Cash position, beginning of year	9,213	7,588	4,570
Cash position, end of year	\$8,903	\$9,213	\$7,588
Key ratios			
Working Capital	\$(5,277)	\$(5,262)	\$(8,213)
Debt to equity ratio	1:1	1.05:1	1.20:1

Our balance sheet at the end of 2010 indicated a working capital deficiency of \$5.3 million, consistent with 2009.

The Company's debt to equity ratio continues to improve and was 1:1 at the end of the year, compared to 1.05:1 last year. The ratio has decreased as a result of scheduled principal reductions of debt, combined with an increase in shareholders' equity through net earnings. This ratio should continue to improve as debt levels decrease and the Company remains profitable.

### Cash Flow

Our cash position fluctuates during the year as a result of the seasonality of our business, historically the highest cash position is December and lowest occurs in August. We generally collect registration fees for the ASHL in the first 3 months of each season, and program fees are collected upon registration.

The Company cash position decreased slightly to \$8.9 million compared to \$9.2 million year ago. The decrease can be attributable to reduced operating earnings and timing differences of some working capital items.

A strong year end cash position, together with seasonal principal payments related to 60% of our debt will benefit the Company in the negative cash flow months. We have built sufficient cash reserves to manage the seasonality of our business without having to borrow.

The Company generated cash flow from operations before borrowing costs, debt principal and capital expenditures totaling \$9.5 million. After providing for borrowing costs of \$3.3 million, a \$6.2 million positive cash flow resulted before principal repayments, preferred share redemption and capital expenditures.

## Management Discussion & Analysis

The Company made scheduled principal repayments during the year totaling \$2.7 million.

Subject to the terms of the expected refinancing, total cash required to service our mortgage debt is expected to be \$5.6 million in 2011.

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

in thousands	2010	2009
Earnings before Interest, Taxes and Amortization (EBITA)	\$9,531	\$10,915
Changes in working capital items	(946)	551
Interest expense	(3,296)	(3,542)
Other	139	126
Cash flow from operations	5,428	8,050
<b>Less:</b>		
Mortgage principal reduction, net of refinancing	(2,669)	(2,606)
Preferred shares (redemption)	-	(1,400)
Capital expenditures, net of disposals	(2,216)	(1,883)
Equipment lease payments	(639)	(586)
Other	(214)	50
Change in cash position for the year	\$(310)	\$1,625

On December 6, 2010 the Company announced the introduction of a quarterly dividend in the amount of \$0.015 per common share. The first dividend was paid on January 17, 2011 to shareholders of record on December 15, 2010. The initiation of a quarterly dividend reflects our continued confidence in our ability to generate strong consistent cash flow while paying down debt.

## Contractual Obligations and Off Balance Sheet Arrangements

The following table presents the aggregate amount of future cash outflows for contractual obligations in each of the next five years and thereafter. The operating leases listed below for land and buildings fit the definition of off – balance sheet financing arrangements.

in thousands	2011	2012	2013	2014	2015	Thereafter	Total
Long-term debt:							
Mortgage principal and interest	\$21,561	\$3,228	\$3,120	\$3,024	\$2,916	\$22,685	\$56,534
Equipment leases, includes interest	632	489	370	187	61	-	1,739
	22,193	3,717	3,490	3,211	2,977	22,685	58,273
Land and building leases	1,727	1,743	1,465	1,469	1,318	20,498	28,220
Off balance sheet financing	1,727	1,743	1,465	1,469	1,318	20,498	28,220
	\$23,920	\$5,460	\$4,955	\$4,680	\$4,295	\$43,183	\$86,493

# Management Discussion & Analysis

## Share Capital

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

	2010	2009
Shares issued and outstanding	13,337,448	13,337,448
<b>Weighted average number of shares outstanding</b>	<b>13,337,448</b>	13,337,448

The Company established a stock appreciation rights (SARs) plan in 2005. The SARs plan provides eligible employees and directors with the right to receive cash equal to the appreciation of the Company's common shares subsequent to the date of the grant. The granted SARs vest in equal installments over a three year period and expire five years from the grant date.

The Company has outstanding stock appreciation rights as follows:

Expiry date	Number of Rights	Exercise Price
November 28, 2011	35,000	\$ 1.20
November 25, 2013	105,750	\$ 0.80
April 15, 2014	35,000	\$ 1.50
November 30, 2013	562,000	\$ 2.00
	<u>737,750</u>	

During the year all remaining rights related to the initial 2005 SARS program were exercised; 579,500 rights were exercised at a cash cost of \$458,000, the net expense recorded in 2010 related to the SARS program was \$0.4 million.

On November 30, 2010 the Board of Directors approved a new SARS program to replace the 2005 plan. 562,000 SARS were granted to executives and directors of the Company with an exercise price of \$2.00. These new rights vest over a three year period and expire on November 30, 2013. The first one third of these SARs will vest on November 30, 2011

The liability related to the SARs program is adjusted quarterly and is based on the 10-day trading average closing price. As at December 31, 2010 the Company recorded a liability in the amount of \$0.2 million and this amount was expensed. As at December 31, 2010 the 10 day average closing price was \$2.07.

## Transactions with Related Parties

Canlan's controlling shareholder, Bartrac Investments Ltd., owns approximately 10.1 million shares of the Company, or 75% of the outstanding shares. Bartrac's ownership position in TSX: ICE has remained unchanged since November 2004.

The Company did not record any related party transactions with Bartrac in 2010. During 2009 the Company did pay dividends totaling \$0.2 million related to the issuance of preferred shares. The preferred shares were redeemed in 2009.

The Chairman of the Board of Directors of the Company is a Director of a vendor from which the Company purchases services in the normal course of business. Purchases from this vendor for the year ended December 31, 2010 was \$45,000 (2009 - \$30,000).

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 year ended December 31, 2010 was \$45,000 (2009 - \$30,000).

## Financial Instruments

The Company initially measures all its financial instruments at fair value. Subsequent measurement and treatment of any gain or loss is recorded as follows:

- Held for trading financial liabilities are measured at the fair value at the balance sheet date with any gain or loss recognized immediately in net income. The Company has entered into an interest-rate-swap agreement to fix the interest rate on a portion of its debt on ice rinks. The fair value of the instrument has been presented as a current liability on the balance sheet. At December 31, 2010, the fair value was \$0.2 million, compared to \$0.6 million last year. Changes in the fair value of the instrument are recognized in net earnings. For the year ended December 31, 2010, an expense recovery of \$0.3 million was recognized, compared to a recovery of \$0.4 million in 2009.
- Transaction costs that are directly attributable to the issuance of financial assets or liabilities are accounted for as part of the carrying cost at inception and are recognized over the term of assets or liabilities using the effective interest method.

The Company does not have held to maturity investments at December 31, 2010. The Company had no "other comprehensive income or loss" transactions during the year ended December 31, 2010 and no opening or closing balances for accumulated other comprehensive income or loss.

## International Financial Reporting Standards

In February 2008 the CICA's Accounting Standards Board confirmed its strategy of replacing Canadian GAAP with International Financial Reporting Standards (IFRS) for Canadian publically accountable enterprises. IFRS will be effective for our interim and annual financial statements beginning on January 1, 2011. The conversion to IFRS will impact our accounting policies, internal control over financial reporting, and financial statement presentation and disclosure. The transition to IFRS may also affect contractual arrangements and debt covenants. We have established a conversion plan and an IFRS project team. Starting in the first quarter of 2011, the Company will provide unaudited consolidated financial statements in accordance with IFRS including comparative figures for 2010.

The key elements of Canlan's IFRS transition plan and progress are set out below. The IFRS transition is progressing as planned. This information is provided to allow readers to better understand Canlan's transition plan and the resulting effects on its financial reporting. It is not appropriate to use this information for any other purpose. In addition, this information reflects our most recent assumptions and expectations. Circumstances may arise, such as change in IFRS, regulations or economic conditions which could change these assumptions and expectations.

### 1. Canadian GAAP and IFRS Differences

Management has completed an in-depth qualitative analysis of differences between Canadian GAAP and IFRS that will impact Canlan's financial reporting. The key differences are related to the following areas:

- a) Property, plant and equipment re: measurement of carry amounts, component accounting, and start-up costs
- b) Impairment
- c) Employee benefits re: share-based compensation
- d) Investment properties re: balance sheet classification
- e) Leases
- f) Deferred income tax

These areas of difference are discussed in more detail below. See "Reconciliation of Canadian GAAP to IFRS."

### 2. Application of IFRS 1 – First-time adoption

Management has completed a review of IFRS 1 – First time adoption, and determined the relevant sections of this standard that will impact Canlan's financial reporting. Canlan's date of transition is set at January 1, 2010. IFRS 1 requires that IFRSs are applied retrospectively at the date of transition with all adjustment to assets and liabilities taken to retained earnings, unless certain exemptions are applied. The Company elected to take the following IFRS 1 optional exemption:

**Borrowing Costs** – this exemption permits an entity to apply the provisions of IAS 23 on borrowing costs on a prospective basis, after the transition date. IAS 23 provides guidance on the capitalization of borrowing costs that are directly attributable to qualifying assets that are part of major development or construction projects.

This exemption was elected because it was infeasible to perform the necessary detailed analysis of historical borrowing costs incurred upon construction of ice rink facilities. The application of this optional exemption has been approved by the Audit Committee.

### 3. Systems and Processes

Management has assessed the processes required in its accounting systems and procedures to ensure the Canadian GAAP vs IFRS differences identified above can be quantified as at the transition date and at each reporting date beginning March 31, 2011. Changes to worksheets and systems, as well as training for employees related to impacted areas are ongoing.

### 4. Financial statement preparation

An IFRS opening balance sheet as at the transition date, January 1, 2010 is required to be included in the Company's first set of IFRS financial statements. This balance sheet will serve as the opening position upon which 2010 results of operations under IFRS will be reported. The 2010 IFRS results of operations will be presented as comparative information at each reporting period beginning on March 31, 2011.

Management has quantified the effects of conversion to IFRS. An opening balance sheet and related note disclosures as at January 1, 2010 that complies with IFRS 1 has been prepared. This opening balance sheet has been audited by the Company's auditors and approved by the Audit Committee.

For financial statements at each reporting date beginning on March 31, 2011, management is in the process of developing the appropriate financial statement format and note disclosures. Where IFRS allows for two or more alternative accounting policies, management has selected the most appropriate accounting policy and this has been approved by the Audit Committee (discussed below). The March 31, 2011 consolidated financial statements will be reviewed by the Company's auditors.

### 5. Business Activities

The potential impact of the transition to IFRS on the Company's loan covenants have been assessed and no significant impact is expected.

### 6. Control Environment

Management has determined that the day-to-day systems of internal controls will not be affected by the transition to IFRS. Changes to controls over financial reporting and disclosures are ongoing. Review of the IFRS transition project and necessary approvals are being conducted by the Audit Committee on a quarterly basis or more frequently if required.

Changes in regulations, economic conditions, business activities or other facts and circumstances could affect the conversion plan and result in changes to the key activities and planned milestones.

### Reconciliation of Canadian GAAP to IFRS

In preparing the IFRS opening balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. Explanations of how the transition from Canadian GAAP to IFRSs will affect the Company's financial position and how these sections are expected to affect the financial statements going forward are as follows:

#### Property, plant and equipment (PP&E)

##### (a) Measurement and Valuation

Under Canadian GAAP, PP&E is recorded at historical cost net of accumulated depreciation, and revaluations are not permitted. Under IFRS, the Company may choose between the cost model or the revaluation model. Under the cost model, assets are carried at historical cost net of accumulated depreciation and accumulated impairment losses. Under the revaluation model, assets are carried at the revalued amount being the fair value at the revaluation date less subsequent accumulated depreciation and accumulated impairment losses. The revaluations must be kept up to date and fair values must be reliably measured at each reporting date.

The Company will use the cost model for accounting for property, plant and equipment as this method is most appropriate given the nature of our operations.

IAS 36 provides guidance on impairment testing of PP&E and investment properties. Under this section, an asset is impaired if its carrying amount exceeds its recoverable amount. The recoverable amount is the greater of its fair value or its value-in-use. The value-in-use equals the discounted future net cash flows from the continuing use of the asset. The impairment loss equals the amount by which the carrying value exceeds its recoverable amount. Under Canadian GAAP, impairment is assessed based on whether the carrying value exceeds the sum of the undiscounted cash flows expected in the future.

Upon transition, the Company tested each rink facility for impairment accordingly. Where a property's carrying amount under previous Canadian GAAP was greater than its fair value or value in use under IFRS, an adjustment was made to write the carrying amount down at the transition date. The revaluation adjustment made at January 1, 2010 was \$2.0 million.

##### (b) Classification

Under Canadian GAAP, the carrying amount of an ice rink property from which the Company holds for the purpose of earning rental income was classified as ice rink property, plant and equipment. Under IFRS, such properties are classified as investment properties. As a result, one rink property's deemed cost of \$4.5 million was reclassified from property, plant and equipment to investment property on the balance sheet.

##### (c) Component accounting and depreciation

Under IFRS, component accounting must be applied to property, plant and equipment. The Company identified rink board systems and refrigeration equipment to be two components within property, plant and equipment that should be accounted for separately and depreciated separately from buildings. Retrospective application of this accounting policy resulted in an increase to accumulated depreciation of \$2.8 million at January 1, 2010.

The changeover to component accounting will increase total depreciation expense each year beginning in 2011.

##### (d) Start-up costs

Under previous Canadian GAAP, the Company capitalized certain costs related to the start-up of newly constructed rink properties and included these costs in property, plant and equipment. Under IFRS, these costs should be expensed. The resulting adjustment made to reduce property, plant, and equipment at January 1, 2010 was \$ 0.2 million.

#### Employee Benefits

Under IFRS, liabilities related to cash-settled share-based compensation are measured at fair value at the grant date and re-measured at each reporting date. Under previous Canadian GAAP, the Company measured the liability related to its Stock Appreciation Plan at intrinsic values. As a result, an adjustment of \$0.1 million was made to increase accrued liabilities at the transition date.

#### Deferred tax

The Canadian GAAP to IFRS adjustments related to the deemed cost, componentization and start-up costs of property, plant and equipment discussed above result in an increase to the temporary differences between accounting and tax values of fixed assets. This ultimately resulted in an increase to deferred tax assets and a decrease to deferred tax liabilities at January 1, 2010. On a net basis, deferred tax assets increased by \$1.2 million.

## Shareholders' Equity

The net effect of all of the above adjustments was charged to retained earnings (deficit), which reduces shareholders' equity on the opening balance sheet.

## Leases

Under Canadian GAAP, the classification of leases between operating and capital was based on a number of indicators that result from quantitative calculations. These quantitative thresholds served as bright line criteria and few other indicators were considered. Under IFRS, the quantitative thresholds are also used as guidance but much consideration is also given to the substance of lease agreements and classification depends on whether substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

Under Canadian GAAP, all of the facilities leased by the Company are accounted for as operating leases. Management is currently reviewing the Lease section of IFRS to determine if changes to lease classifications are required upon transition.

As the International Accounting Standards Board continues to issue new standards during our conversion period, the final impact of IFRS on our financial statements and note disclosures will only be measured once the IFRS applicable at our conversion date are known. Our transition plans relating to IFRS are on schedule and we will continue to provide updates in our quarterly MD&A.

## 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.

## Risk Factors

Canlan is engaged primarily in the operation of multi-pad ice rink facilities throughout North America, and is exposed to a number of risks and uncertainties that can affect operating performance and profitability. Our past performance is no guarantee of our performance in future periods.

Some of the risks and uncertainties we are exposed to, together with a description of management's action to minimize our exposure, are summarized below.

### Seasonality of operations

The Company's business cycle is highly seasonal with 57% of total revenues and virtually all of the operating profit being generated in the first and last quarter. This seasonality of operations impacts reported quarterly earnings. The operating result 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.

### Competition

The ice rink industry is highly competitive and Canlan competes with other private operators in its three major markets, B.C., Ontario and Quebec, as well as Municipal Governments that have different mandates and usually operate with significant losses. 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 operations.

### Insurance

We maintain property and general liability insurance in addition to accident insurance for our various in-house programs.

A large part of our revenue is achieved through the development and organization of adult hockey leagues that play in our owned and managed

## Management Discussion & Analysis

facilities. Due to the nature of the sport, injuries can occur. The Company purchases liability and accident insurance, the cost of which is dependant upon the history of the number of 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.

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.

### *Interest Rate and Loan Renewal Risk*

Mortgage debt of \$5.7 million, is subject to variable interest rates. For every 1% change in the prime rate, interest expense will change by \$57,000 per annum.

Our loans are periodically refinanced with varying maturity dates. There is a risk that the loans will not be renewed or the renewal terms may be less favourable to the Company than they are currently, which may have an adverse impact on our business and cash flow.

Mitigating factors and strategies:

- The Company has fixed the interest rate on 86% of its mortgage debt, which totals \$38.7 million
- The Company maintains good relationships with its lenders through regular communications' and reporting.
- As at the date of this report, two of the three loan facilities mature on September 30, 2014 and one loan facility matures on July 15, 2018, which provides the Company with a reasonable period to operate without significant risk.

## Critical Accounting Policies and Estimates

Canlan's significant accounting policies are described in Note 4 to the consolidated financial statements. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses and disclosure of contingent liabilities.

The most critical of these policies are those related to ice rink properties and revenue recognition.

### *Useful lives of depreciable assets*

Ice rink properties and administrative assets, such as furniture, computer equipment and software are amortized on a straight-line basis over the estimated useful life of the asset. A large proportion of our total assets are comprised of our ice rink properties (2010 - 86%). The selection

method of amortization and length of the amortization period could have a material impact on amortization expense and the net book value of our 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.

### *Revenue recognition*

Revenue from ice rink operations and management services is recognized as the product or service is supplied. Deferred revenue relates to amounts received in advance for our adult hockey leagues; revenue is recognized as games are played. A certain amount of judgment is required in the determination of revenue recognition based on our estimates. Any differences are recognized upon completion of the season.

### *Valuation of future income tax assets*

In determining our income tax provision, the Company is required to make assumptions about expected timing of the reversal of our future tax asset. In the event that our assumptions differ from those of the tax authorities or that the timing of the reversals were not as anticipated, the tax provision could increase or decrease.

### *Disclosure Controls and Procedures*

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

Based on current securities legislation in Canada, our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are required to certify that they have assessed the effectiveness of our disclosure controls and procedures as at December 31, 2010.

Our management has evaluated, under the supervision and with the participation of our CEO and CFO, the design and effectiveness of the Company's disclosure controls and procedures as at the year ended December 31, 2010. 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 (COSO) Framework. Based on our evaluation management has concluded that ICFR, as defined in NI 52-109 and using the COSO integrated framework are effective as of December 31, 2010.

## Outlook

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The 2010 operating results were disappointing and did not meet management's expectations. The primary contributing factors include lower than expected revenue from our two newest facilities in the USA, competition from local governments in three of our markets in Canada and the changing landscape in our food & beverage business. While we continue to generate positive cash flow and reduce our debt, we saw minimal same store growth in many of our markets.

Our newest facility located in Fort Wayne Indiana is in its first full operating season and is gaining momentum; we've seen ice utilization increase steadily in Fort Wayne with growth in adult hockey, youth hockey, and public programs. Our two pad facility in Vineland New Jersey increased revenue by 38% over 2009 and has reduced its operating loss significantly. Management is working closely with the local operations team to provide guidance on increasing revenue and controlling costs.

Our facilities located in Regina, Winnipeg and Oshawa have been faced with significant new competition from local governments. New multi pad facilities have been built in these markets creating an oversupply of ice. We are attempting to work with local governments to find solutions and create mutually beneficial arrangements.

Our food and beverage operation contributed 17% of our total revenue in 2010, or \$11.8 million in gross revenue. On a same store basis we have seen a revenue decline, due to economic conditions, changes in driving laws and the introduction of HST in Ontario and British Columbia. We have improved our operating procedures in this area of our business and are now more cost effective which is expected to improve profitability.

We have made a number of operational changes recently and expect 2011 to show improvement over this past year. We continue to reduce our debt and have rewarded our shareholders with the introduction of a quarterly dividend.

The recent renewal of \$17 million of mortgage debt and the added acquisition financing provided by the Company's Bank ensures we have adequate financing to operate in the near future, and enables us to execute our growth strategies.



Michael F. Gellard  
Senior Vice President and Chief Financial Officer



# Auditors Report to the Shareholders



KPMG LLP

Chartered Accountants

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## Independent Auditors' Report

To the Shareholders of Canlan Ice Sports Corp.

We have audited the accompanying consolidated financial statements of Canlan Ice Sports Corp., which comprise the balance sheets as at December 31, 2010 and December 31, 2009, and the consolidated statements of earnings, comprehensive income and deficit and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Canlan Ice Sports Corp. as at December 31, 2010 and December 31, 2009, and its consolidated results of operations and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Vancouver, Canada  
March 22, 2010

## Consolidated Balance Sheets

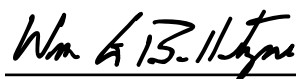
### December 31, 2010 and 2009

(In thousands of dollars)

	2010	2009
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 8,903	\$ 9,213
Accounts receivable	1,519	1,845
Inventory	1,041	1,024
Prepaid expenses	456	496
Future income taxes (note 12)	2,585	3,326
	14,504	15,904
Properties:		
Ice rinks and recreational properties (note 5)	94,128	95,922
Held for ice rink development	856	856
	94,984	96,778
Future income taxes (note 12)	586	521
Other assets	439	345
	\$ 110,513	\$ 113,548
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,262	\$ 5,360
Deferred revenue and customer deposits	11,022	12,019
Financial liability held for trading (note 13)	227	568
Current portion of:		
Obligations under capital leases (note 6)	533	534
Debt on ice rinks (note 7)	2,737	2,685
	19,781	21,166
Long-term liabilities:		
Obligations under capital leases (note 6)	922	912
Debt on ice rinks (note 7)	41,285	43,910
Future income taxes (note 12)	1,845	1,387
	44,052	46,209
	63,833	67,375
Shareholders' equity:		
Share capital (note 8)	63,109	63,109
Contributed surplus	543	543
Deficit	(16,972)	(17,479)
	46,680	46,173
Nature of operations (note 2)		
Commitments and contingencies (note 11)		
Subsequent events (note 17)		
	\$ 110,513	\$ 113,548

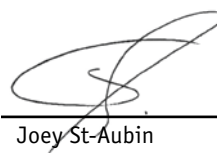
See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



W. Grant Ballantyne

Director



Joey St-Aubin

Director

## Consolidated Statements of Earnings, Comprehensive Income and Deficit

### Years ended December 31, 2010 and 2009

(In thousands of dollars, except for per share amounts)

	2010	2009
Revenue:		
Ice rinks (note 15)	\$ 69,849	\$ 67,196
Expenses:		
Ice rinks	55,565	52,142
Ice rinks operations	14,284	15,054
General and administration expenses	4,753	4,139
Earnings before the undernoted	9,531	10,915
Other expenses (income):		
Amortization	4,813	4,467
Interest	3,296	3,542
Foreign exchange	(43)	(30)
Sale of assets	(35)	(32)
Held-for-trading financial liabilities (note 13)	(341)	(365)
	7,690	7,582
Earnings from operations before income taxes	1,841	3,333
Income taxes (note 12):		
Future expense	1,134	599
Net earnings and comprehensive income	707	2,734
Deficit, beginning of year	(17,479)	(20,213)
Dividend on common shares (note 8)	(200)	-
Deficit, end of year	\$ (16,972)	\$ (17,479)
Basic and fully diluted earnings per common share	\$ 0.05	\$ 0.20
Weighted average common shares issued for basic and diluted earnings per share calculations	13,337,448	13,337,448

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

### Years ended December 31, 2010 and 2009

(In thousands of dollars, except for per share amounts)

	2010	2009
Cash provided by (used in):		
Operations:		
Net earnings	\$ 707	\$ 2,734
Items not involving cash:		
Amortization	4,813	4,467
Amortization of deferred financing costs	96	96
Gain on sale of assets	(35)	(32)
Future income tax expense	1,134	599
Gain on financial liability held for trading	(341)	(365)
Net change in non-cash working capital (note 16(a))	(946)	551
	5,428	8,050
Financing:		
Principal repayments of debt on ice rinks	(2,669)	(2,606)
Principal repayments on obligations under capital lease	(643)	(586)
Redemption of preferred shares	-	(1,400)
	(3,312)	(4,592)
Investments:		
Proceeds on sale of assets	37	50
Expenditures on ice rink and recreational properties	(2,249)	(1,787)
Other assets	(214)	(96)
	(2,426)	(1,833)
Increase (decrease) in cash and cash equivalents	(310)	1,625
Cash and cash equivalents, beginning of year	9,213	7,588
Cash and cash equivalents, end of year	\$ 8,903	\$ 9,213

Supplemental cash flow information (note 16(b)).

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

(tabular amounts expressed in thousands of dollars, except per share amounts)  
Years ended December 31, 2010 and 2009

## 1. General:

Canlan Ice Sports Corp. (the Company) focuses on the development, lease, acquisition and operation of multi-purpose recreation and entertainment facilities.

## 2. Nature of operations:

The Company has refinanced its long term debt with principal payments coinciding with the Company's seasonal business such that the Company expects that it will no longer require shareholder support for financing during the off peak hockey season. The Company has two debt agreements, one of which matures on September 30, 2011 and the other on July 15, 2018. Subsequent to year end, the Company has entered into an agreement to renew the September 30, 2011 debt agreement (note 17).

At December 31, 2010, the Company has a working capital deficiency of \$5,277,000 as the Company finances a portion of its long term assets through customer deposits.

## 3. Significant accounting policies:

These financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP).

### (a) Principles of consolidation:

These consolidated financial statements include the accounts of the Company and the following wholly-owned subsidiaries:

- P.C. Development Inc.
- Les Quatre Glaces (1994) Inc.
- Iceplex 2000 Ltd.
- Canlan Ice Sports (USA) Corp.
- Canlan Management Services Ltd.

### (b) Inventory:

Inventory consists of hockey equipment, supplies and sportswear held for sale, and food and beverage supplies. Inventory is recorded at the lower of cost, determined on a first-in first-out basis, and estimated net realizable value.

### (c) Long-lived assets:

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets are tested and measured for impairment at the individual ice rink property level, the lowest level for which identifiable cash flows are largely independent.

A two-step process is used to assess the impairment of long-lived assets held for use, with the first step determining whether impairment needs to be recognized, and the second step measuring the amount of the impairment. Impairment losses are recognized when the carrying amount of long-lived assets exceeds the sum of the undiscounted cash flows expected to result from their use

and eventual disposition. An impairment loss is determined as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

Ice rink properties are amortized on a straight-line basis over the estimated useful lives of the respective assets, which are as follows:

Assets	Rate
Buildings	40 years
Building improvements	10 years
Machinery and equipment	10 years
Computers, furniture and fixtures	5 years
Ice resurfacing equipment	5 years

### (d) Revenue recognition:

Revenue from ice contracts, programs and leagues is recorded as earned and collection is reasonably assured. Deferred revenue represents payments received in advance for events which have not yet occurred, and services which have not yet been performed. These amounts are recorded in revenue as earned.

### (e) Management contracts:

The Company's financial results include the revenue and expenses of facilities operated under management contracts where the Company's return is subject to the risks and rewards of operation. For facilities where this is not the case, the Company records only the revenue received in the form of fixed management fees.

### (f) Foreign currency:

Monetary items denominated in foreign currency are translated into Canadian dollars at exchange rates in effect at the balance sheet date, and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenue and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in operations.

### (g) Financial Instruments:

The Company designated its cash and cash equivalents as available for sale, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable, accrued liabilities, and debt on ice rinks are classified as other financial liabilities, which are measured at amortized cost. Derivative contracts are measured at fair value. Transaction costs are offset against the outstanding principal of the related debt and are amortized using the effective interest rate method. The Company did not have held-to-maturity instruments at December 31, 2010.

### (h) Derivative financial instruments:

Derivative instruments are financial contracts whose value is derived from interest rates, foreign exchange rates or other financial or commodity indices.

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On August 1, 2008, the Company entered into an interest rate swap contract used to manage the exposure to market risks from changing interest rates. This instrument has not been designated as a hedge and is marked to market. The resulting unrealized gains and losses during the period are recorded in other expenses (income) with a corresponding asset or liability recorded on the balance sheet. Payments and receipts under the interest rate swap contract are recognized as adjustments to interest expense on long-term debt.

(i) Earnings per share:

Basic and fully diluted earnings per share have been calculated using the weighted average number of common shares outstanding.

(j) Stock-based compensation:

Stock appreciation rights (SARs) are settled in cash and are recognized over their vesting period and re-measured at each reporting period, until settlement, using quoted market values. SARs are accounted for as compensation expense and recorded in accounts payable and accrued liabilities.

(k) Employee future benefits:

The Company matches contributions to a defined contribution pension plan to a maximum of 4% of salaries. Included in ice rink and general and administrative expenses is \$323,000 (2009 - nil) in respect of the Company's contributions for 2010.

(l) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported balances. In determining estimates of net recoverable amounts for its ice rinks and net realizable values for accounts receivable, inventory and other assets, management makes assumptions regarding applicable industry performance and prospects, as well as general business and economic conditions that prevail and are expected to prevail. Assumptions underlying asset valuations are limited by the availability of reliable comparable data and the uncertainty of predictions concerning future events.

By nature, asset valuations are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated net recoverable amounts and net realizable values may change, and the amount of the change may be material.

(m) Income taxes:

Incomes taxes are accounted for by the asset and liability method. Under this method, future income tax assets and liabilities are determined on temporary differences (differences between the tax basis and accounting basis of assets and liabilities) and are measured using the enacted, or substantively enacted tax rates expected to apply when the asset is realized or the liability is settled. A valuation allowance is recorded against any future income tax asset to reduce it to an amount that management considers is more likely than not to be realized.

#### 4. *Future changes in accounting policies:*

Publicly accountable Canadian enterprises will be required to prepare financial statements in accordance with International Financial Reporting Standard ("IFRS"), as issued by the International Accounting Standards Board. The Company will report its financial results in accordance with IFRS effective January 1, 2011.

## Notes to Consolidated Financial Statements

(tabular amounts expressed in thousands of dollars, except per share amounts)  
Years ended December 31, 2010 and 2009

### 5. Ice rinks and recreational properties:

2010	Cost	Accumulated amortization	Net book value
Land	\$ 14,616	\$ -	\$ 14,616
Buildings and building improvements	107,584	34,917	72,667
Machinery and equipment	8,413	5,128	3,285
Computers, furniture and fixtures	7,323	4,872	2,451
Ice resurfacing equipment	3,960	2,851	1,109
	\$ 141,896	\$ 47,768	\$ 94,128
2009	Cost	Accumulated amortization	Net book value
Land	\$ 14,616	\$ -	\$ 14,616
Buildings and building improvements	107,155	32,026	75,129
Machinery and equipment	7,802	4,598	3,204
Computers, furniture and fixtures	6,018	4,110	1,908
Ice resurfacing equipment	3,537	2,472	1,065
	\$ 139,128	\$ 43,206	\$ 95,922

Included in ice rinks are assets under capital leases with a cost of \$2,916,000 (2009 - \$2,846,000) and accumulated amortization of \$1,048,000 (2009 - \$863,000).

### 6. Obligations under capital leases:

Total minimum lease payments are as follows:

2011	\$ 632
2012	489
2013	370
2014	187
2015	61
	1,739
Interest (rates vary from 4% to 8%)	284
Present value of minimum capital lease payments	1,455
Current portion	533
Long-term portion	\$ 922

Lease obligations are secured directly by the leased assets.

Interest of \$119,000 (2009 - \$123,000) relating to capital lease obligations has been included in interest expense.

# Notes to Consolidated Financial Statements

(tabular amounts expressed in thousands of dollars, except per share amounts)  
Years ended December 31, 2010 and 2009

## 7. Debt on ice rinks:

	Maturity dates	Interest rates	2010	2009
Fixed rate	2018	6.79%	\$ 27,000	\$ 28,500
Variable rate	2011	Prime + 1.25%	11,671	12,247
	2011	Prime + 1.25%	5,700	6,293
			44,371	47,040
Less: deferred financing costs			(349)	(445)
			44,022	46,595
Current portion			2,737	2,685
Long-term portion			\$ 41,285	\$ 43,910

As at December 31, 2010, debt on ice rinks consists of three credit facilities with two lending institutions as follows:

- \$30,000,000 loan maturing on July 15, 2018, fixed interest at 6.79% per annum, payable monthly. At December 31, 2010, the balance outstanding was \$27,000,000;
- \$13,000,000 loan maturing on September 30, 2011, interest at Prime rate plus 1.25% payable monthly. The Company has entered into an interest rate swap agreement to fix the interest rate on the total principal borrowed at a rate of 4.12% per annum, plus applicable stamping fees at 2.50%, under an agreement expiring in September 2011. At December 31, 2010, the balance outstanding was \$11,671,000. Subsequent to year end, the Company entered into an agreement to renew its loan (note 17). Accordingly, the loan has been classified as long-term; and
- \$7,000,000 loan maturing on September 30, 2011, interest at Prime rate plus 1.25% per annum, payable monthly. At December 31, 2010, the balance outstanding was \$5,700,000. Subsequent to year end, the Company entered into an agreement to renew its loan (note 17). Accordingly, the loan has been classified as long-term.

Amortization of deferred financing costs totaling \$96,000 (2009 - \$96,000) was recorded as interest expense. Debt on ice rinks is secured by first mortgages, demand debentures, general security agreements, general assignments of book debts, assignments of rents and insurance, and specific pledging of title to and interest in the respective land and buildings.

The Company has available, a \$1,000,000 uncommitted operating line of credit that was unused at December 31, 2010. Outstanding amounts would incur interest at the Prime rate plus 1.75%, and be secured by general security agreements. The operating line of credit expires on September 30, 2011.

## 8. Share capital:

The common shares of the Company are listed on the Toronto Stock Exchange.

	Shares	Amount
(a) Authorized:		
500,000,000 common shares of no par value		
(b) Issued and outstanding:		
December 31, 2009 and 2010	13,337,448	\$ 63,109

During 2010, the Company announced that its Board of Directors approved the introduction of a quarterly dividend. On December 6, 2010, the Company declared a quarterly dividend of \$0.015 per share payable on January 17, 2011. At December 31, 2010, the Company recognized dividends payable of \$200,000 (2009 - nil).

## 9. Stock-based compensation:

In 2005, the Company established a Stock Appreciation Rights plan (the SAR Plan) granted by the Company's Board of Directors subject to terms and conditions of the Canlan Ice Sports Corp. Director and Employee Stock Appreciation Rights Plan (2006). The SAR Plan provides eligible directors and employees of the Company with the right to receive cash equal to the appreciation of the Company's common shares subsequent to the date of grant. The stock appreciation rights granted under the SAR Plan vest in equal installments over a three year period commencing in November 2006. All unexercised stock appreciation rights expire five years from the grant date.



## Notes to Consolidated Financial Statements

(tabular amounts expressed in thousands of dollars, except per share amounts)  
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### 9. Stock-based compensation (continued):

The table below summarizes the change in the number of SAR during the year ended December 31, 2010:

	Number of SAR	Weighted average exercise price
Number of SAR outstanding, December 31, 2009	755,250	\$ 1.15
Exercised	(579,500)	1.20
Forfeited	-	-
Granted	562,000	2.00
Balance, December 31, 2010	737,750	\$ 1.77

The following table summarizes information about the stock appreciation rights outstanding at December 31, 2010

Exercise price	Rights outstanding		Rights exercisable		Weighted average exercise price
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	
\$ 1.20	35,000	11 months	\$ 1.20	35,000	\$ 1.20
\$ 0.80	105,750	35 months	\$ 0.80	70,500	\$ 0.80
\$ 1.50	35,000	40 months	\$ 1.50	11,667	\$ 1.50
\$ 2.00	562,000	35 months	\$ 2.00	-	\$ 2.00

During 2010 the Company recognized a compensation expense of \$389,000 (2009 - \$211,000) in respect of the SAR Plan.

### 10. Capital risk management:

The Company defines capital that it manages as the sum of cash and cash equivalents, debt on ice rinks, preferred shares, and shareholders' equity

The Company's objectives when managing its capital are:

- To safeguard the entity's ability to continue as a going concern so that it can provide services to its customers and continue to reduce debt;
- To comply with debt covenants; and
- To maintain a financial position suitable for supporting the Company's growth strategies and provide an adequate return to shareholders.

## Notes to Consolidated Financial Statements

(tabular amounts expressed in thousands of dollars, except per share amounts)  
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The Company's debt on ice rinks (note 7) contains a covenant that requires the Company's debt to tangible net worth ratio, as defined in its debt agreements, to be no greater than 1.50. Tangible net worth is calculated as follows:

Shareholders' equity	\$ 46,680
Less:	
Net future income tax asset	1,326
Net worth	45,354
Current and long-term portions of:	
Debt on ice rinks	44,371
Capital leases	1,455
Total debt	\$ 45,826
Tangible net worth ratio	1.01

The Company has not made any changes to its overall capital management strategy during the year ended December 31, 2010.

### 11. Commitments and contingencies:

(a) At December 31, 2010, the Company has lease agreements with third parties under the terms of which the Company leases and operates certain ice rink and recreational facilities. The Company assumes the financial risks and rewards of the facilities' operations, but there will be no transfer of ownership. Accordingly, the lease agreements have been accounted for as operating leases. The total minimum lease payments are as follows:

Years ending December 31:	Langley Twin Rinks	Ice Sports Victoria Park	Ice Sports York	Ice Sports Vineland	Ice Sports Fort Wayne
2011	\$ 220	\$ 328	\$ 298	\$ 324	\$ 557
2012	220	328	298	324	573
2013	220	328	298	-	619
2014	220	328	298	-	623
2015	-	328	298	-	692
Thereafter-	-	1,339	8,582	-	10,577

- (i) Ice Sports Langley Twin Rinks is a two-pad facility in British Columbia with a lease term that ends on December 31, 2014.
  - (ii) Ice Sports Victoria Park is a two-pad facility in Ontario with a lease term that ends on January 31, 2020.
  - (iii) On August 1, 2006, the Company purchased an ice rink facility in Toronto, Ontario. Upon purchase, the Company assumed a forty-nine year land lease agreement related to the land on which the facility is situated. The land lease agreement is with a third party and ends on October 30, 2044.
  - (iv) Ice Sports Vineland is a two-pad facility in New Jersey with a lease term that ends on December 31, 2012. At the conclusion of the lease, the Company will have the option to purchase the facility for USD\$3,800,000.
  - (v) Ice Sports Fort Wayne is a three-pad facility in Indiana with a lease term that began on February 12, 2010 and will end on January 31, 2030. The lease gives the Company the option to purchase the facility from the lessor for USD\$9,300,000 anytime during the first five years of the lease, and USD\$9,800,000 during years six and seven.
- (b) Effective January 1, 2008, the Company entered into an agreement with a third party under the terms of which the Company leases an ice rink facility it owns to the third party and the lessee operates the facility. The annual lease payment payable to the Company is \$325,000 and the term of the lease is for a period of five years. At the end of the term, the lessee has an option to purchase the facility from the Company for \$4,500,000.

## Notes to Consolidated Financial Statements

(tabular amounts expressed in thousands of dollars, except per share amounts)  
Years ended December 31, 2010 and 2009

### 11. Commitments and contingencies (continued):

- (c) Due to the nature of the sports and recreation business, various lawsuits involving the Company are pending. The financial impact of these lawsuits is not determinable, but management believes, based on legal counsels' opinions, that the outcome will not materially affect the Company's financial position.

### 12. Income taxes:

- (a) The major factors which caused variations from the Company's expected combined federal and provincial income tax rate of 31% for 2010 (2009 - 32%) were as follows:

	2010	2009
Statutory rate applied to earnings from continuing operations before income taxes	\$ 578	\$ 1,067
Change in valuation allowance	320	376
Non-deductible expenses	6	121
Substantively enacted tax rate changes	275	(30)
Recognition of future benefits related to loss carry forwards	-	(777)
Other	(45)	(158)
<b>Income taxes</b>	<b>\$ 1,134</b>	<b>\$ 599</b>

- (b) The tax effects of temporary differences that give rise to future income tax assets and future income tax liabilities at December 31, 2010 and 2009 are presented below:

	2010	2009
<b>Future income tax assets:</b>		
Unused tax losses	\$ 1,564	\$ 1,217
Deferred revenue	2,251	2,907
Properties	865	755
Unrealized loss on financial instruments	69	172
Other	315	369
	5,064	5,420
Less: valuation allowance	(1,893)	(1,573)
<b>Total future income tax asset</b>	<b>3,171</b>	<b>3,847</b>
Current portion of future income tax asset	2,585	3,326
<b>Non-current future income tax asset</b>	<b>\$ 586</b>	<b>\$ 521</b>
<b>Future income tax liability:</b>		
Properties - non-current	\$ (1,845)	\$ (1,387)
<b>Net future income taxes</b>	<b>\$ 1,326</b>	<b>\$ 2,460</b>
<b>Presented on balance sheets as:</b>		
Future income tax asset - current	\$ 2,585	\$ 3,326
Future income tax asset - non-current	586	521
Future income tax liability - non-current	(1,845)	(1,387)
	\$ 1,326	\$ 2,460

- (c) At December 31, 2010 the Company has non-capital loss carry forwards for income tax purposes of approximately \$4,682,000 (2009 - \$3,599,000) available to offset future taxable income in Canada and the United States. The benefit of these losses will expire starting in 2011 through to 2030. None of these losses carried forward are restricted as to use.

# Notes to Consolidated Financial Statements

(tabular amounts expressed in thousands of dollars, except per share amounts)  
Years ended December 31, 2010 and 2009

## 13. Financial instruments:

### (a) Fair value:

The carrying values of certain of the Company's financial instruments, including accounts receivable, accounts payable and accrued liabilities, and obligations under capital leases are considered by management to approximate their fair values due to their short-term nature.

The Company's financial instruments of a long-term nature, being debt on ice rinks, may be impacted by changes in market yields, which can result in differences between their carrying values and their fair values.

The fair values of debt on ice rinks included in the balance sheet are as follows:

	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Debt on ice rinks	\$ 44,022	\$ 44,275	\$ 46,595	\$ 47,665

The fair value of debt on ice rinks was estimated at the present value of contractual future payments of principal and interest, discounted at the current market rates of interest available to the Company for the same or similar debt instruments.

The Company has also entered into an interest-rate-swap agreement to fix the interest rate on a portion of its debt on ice rinks (note 7). The fair value of the instrument has been presented as a current liability on the balance sheet and is classified as Level 2 in the fair value hierarchy. At December 31, 2010, the fair value was \$227,000 (2009 - \$568,000). Changes in the fair value of the instrument are recognized in net earnings. For the year ended December 31, 2010, a gain of \$342,000 (2009 - \$365,000) was recognized.

### (b) Interest rate risk:

The terms of the Company's outstanding debt are described in note 7. As certain of the Company's debt instruments bear interest at floating rates and are not hedged by interest rate swaps, fluctuations in these rates will impact the cost of financing incurred in the future. A change in the Canadian Prime rate by 1% will increase or decrease interest expense by approximately \$57,000 (2009 - \$63,000) per annum.

### (c) Liquidity risk:

Liquidity risk is the risk from the Company's potential inability to meet its financial obligations. The Company constantly monitors its cash flows and operations to ensure current and long-term obligations can be met. The Company's capital resources are comprised of cash and cash equivalents and cash flow from operating activities. A portion of the cash and cash equivalents at December 31, 2010 consists of customer deposits received in advance of the services being provided.

### (d) Credit risk:

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable. Effective monitoring of accounts receivable is a core control procedure of the Company and appropriate provisions are recorded for impaired accounts. The Company does not face any material concentrations of credit risk.

The Company's credit risk on cash and cash equivalents is limited as it maintains its cash and cash equivalents with large financial institutions.

## 14. Related party transactions:

- During the year, the company paid nil (2009 - \$153,700) preferred share dividends to an affiliate of the Company's controlling shareholder as the preferred shares were fully redeemed in 2009.
- During the year, the Company paid \$109,000 (2009 - \$119,800) in directors' fees.
- The Chairman of the Board of Directors of the Company is a Director of a vendor from which the Company purchases services in the normal course of business. Purchases from this vendor for the year ended December 31, 2010 was \$45,000 (2009 - \$30,000).
- 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 year ended December 31, 2010 was \$45,000 (2009 - \$30,000).

## Notes to Consolidated Financial Statements

(tabular amounts expressed in thousands of dollars, except per share amounts)  
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### 15. Segmented information:

The Company's operations consist of full service ice rink and recreational facilities, primarily in Canada, which constitute a single operating segment.

Ice rink revenue by services provided are as follows:

	2010	2009
Ice sales	\$ 51,343	\$ 48,778
Restaurant and lounge	11,797	11,804
Sports store	1,960	1,990
Management and consulting fees	286	390
Other	4,463	4,234
	<b>\$ 69,849</b>	<b>\$ 67,196</b>

There is no single customer who accounts for 10% or more of the Company's revenue.

### 16. Supplemental cash flow information:

	2010	2009
(a) Net changes in non-cash working capital:		
Accounts receivable	\$ 326	\$ (19)
Inventory	(17)	47
Prepaid expenses	40	(165)
Accounts payable and accrued liabilities	(298)	(361)
Deferred revenue and customer deposits	(997)	1,049
	<b>\$ (946)</b>	<b>\$ 551</b>
(b) Supplemental cash flow information:		
Interest paid	\$ 3,201	\$ 3,461
Non-cash transactions:		
Capital lease obligations	647	395

### 17. Subsequent events:

(a) Two of the Company's credit facilities mature on September 30, 2011 (note 7). On March 22, 2011, the Company has entered into an agreement to renew the terms of these two credit facilities effective October 1, 2011. The terms of the two renewed credit facilities are as follows:

- \$13,000,000 loan maturing on September 30, 2014, interest at Prime rate plus 1.25% payable monthly; and
- \$7,000,000 loan maturing on September 30, 2014, interest at Prime rate plus 1.25% per annum, payable monthly.

In addition, the lending institution made available to the Company, a \$5,000,000 committed revolving credit facility. Outstanding amounts would incur interest at Prime rate plus 1.25%. The revolving credit facility expires on September 30, 2014.

(b) On March 22, 2011, the Company declared a quarterly dividend of \$0.015 per share payable on April 15, 2011.

## Five Year Review

(expressed in thousands except statistics)

	2010	2009	2008	2007	2006
<b>Assets:</b>					
Ice rink properties	\$94,128	\$95,922	\$98,137	\$99,046	\$100,464
Other	13,214	13,779	12,011	9,131	9,599
Future income tax benefit	3,171	3,847	4,566	1,380	2,140
	<b>\$110,513</b>	<b>\$113,548</b>	<b>\$114,714</b>	<b>\$109,557</b>	<b>\$112,203</b>
<b>Liabilities:</b>					
Ice rink mortgages	\$44,022	\$46,595	\$49,105	\$50,264	\$53,195
Preferred Shares	-	-	1,400	2,650	3,650
Other	17,966	19,393	19,263	17,031	16,552
Future income tax liability	1,845	1,387	1,507	-	-
	<b>\$63,833</b>	<b>\$67,375</b>	<b>\$71,275</b>	<b>\$69,945</b>	<b>\$73,397</b>
<b>Shareholders' Equity:</b>					
Share capital	\$63,109	\$63,109	\$63,109	\$63,109	\$63,109
Contributed surplus	543	543	543	543	543
Retained earnings (deficit)	(16,972)	(17,479)	(20,213)	(24,040)	(24,846)
	<b>\$46,680</b>	<b>\$46,173</b>	<b>\$43,439</b>	<b>\$39,612</b>	<b>\$38,806</b>
<b>Statistics:</b>					
Debt to equity ratio	1:1	1.05:1	1.21:1	1.37:1	1.49:1
Share price range	\$1.50-2.25	\$1.00-1.50	\$1.00-2.00	\$1.20-2.70	\$0.80-1.40

## Five Year Review

	2010	2009	2008	2007	2006
<b>Revenue:</b>					
Ice rinks	\$69,849	\$67,196	\$64,669	\$62,539	\$55,231
Operating expenses:					
Ice Rinks	55,565	52,142	49,768	48,856	43,107
General and administrative	4,753	4,139	3,665	3,526	2,775
	60,318	56,281	53,433	52,382	45,882
<b>Earnings before interest, amortization and taxes</b>	<b>9,531</b>	<b>10,915</b>	<b>11,236</b>	<b>10,157</b>	<b>9,349</b>
<b>Other expenses:</b>					
Amortization	4,813	4,467	4,224	4,131	3,888
Interest	3,296	3,542	3,944	4,440	3,955
Loss on financial instruments	(341)	(365)	933	0	0
Other	(78)	(62)	(14)	20	341
Taxes (recovery)	1,134	599	(1,678)	760	(189)
	8,824	8,181	7,409	9,351	7,995
<b>Net earnings</b>	<b>\$707</b>	<b>\$2,734</b>	<b>\$3,827</b>	<b>\$806</b>	<b>\$1,354</b>
<b>Basic &amp; fully diluted earnings per common share:</b>	<b>\$0.05</b>	<b>\$0.20</b>	<b>\$0.29</b>	<b>\$0.06</b>	<b>\$0.10</b>
Issued and average shares outstanding at year end (000s)	13,337	13,337	13,337	13,337	13,337

## Corporate Information

### Directors

Charles Allen  
Chairman, TeraGo Inc.  
Whitby, ON

W. Grant Ballantyne  
Chairman, Canlan Ice Sports Corp.  
Victoria, BC

Frank D. Barker  
Partner, Kinetic Capital Partners  
Vancouver, BC

Geoffrey J. Barker  
Vice-President,  
Properties & Development  
Bartrac Holdings Ltd.  
Vancouver, BC

Edwin Cohen  
Private Investor  
Toronto, ON

William B. Pattison  
President  
Pattison Information Inc.  
Victoria, BC

Joey St-Aubin  
President & CEO  
Canlan Ice Sports Corp.  
Courtice, ON

### Officers

W. Grant Ballantyne  
Chairman

Joey St-Aubin  
President & CEO

Michael F. Gellard  
Senior Vice-President & CFO

Mark Faubert  
Senior Vice-President of Operations

Ken Male  
Vice-President  
Partnership Solutions

Paul Dillion  
Vice-President  
Sales, Marketing & Service

Shari Lichterman  
Vice-President  
Eastern Operations

Greg Porcellato  
Vice-President  
Western Operations

Mark E. Reynolds  
Vice-President  
Human Resources & Chief Privacy Officer

Ivan C. Wu  
Vice-President Finance & Controller

### Head Office

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### Solicitors & Registered Office

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### Shares Listed

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### Web site

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