



CANLAN ICE SPORTS CORP.

SECOND QUARTER REPORT
JUNE 30, 2011



Notice of no auditor review of interim consolidated financial statements

The accompanying interim consolidated financial statements of the Company, as at and for the period ended June 30, 2011 have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by the entity's auditor.

CANLAN ICE SPORTS CORP.

Condensed Consolidated Balance Sheets
(Unaudited)
(Expressed in thousands of Canadian dollars)

	June 30, 2011	December 31, 2010	June 30, 2010
Assets			
Current assets:			
Cash and cash equivalents	\$2,654	\$8,903	\$5,144
Accounts receivable	1,743	1,519	1,868
Inventory	978	1,041	1,072
Prepaid expenses	1,043	456	1,478
	6,418	11,919	9,562
Non-current assets:			
Property, plant and equipment (note 5)	86,769	84,600	86,055
Investment properties	5,184	5,254	5,324
Deferred tax assets (note 11)	2,800	3,414	4,026
Other assets	467	439	428
	95,220	93,707	95,833
	\$101,638	\$105,626	\$105,395
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	\$6,565	\$5,644	\$6,249
Deferred revenue and customer deposits	6,443	11,022	7,461
Financial liability held for trading (note 12)	81	227	414
Current portion of:			
Obligations under capital leases	531	533	593
Debt on ice rinks (note 6)	2,726	18,871	2,706
	16,346	36,297	17,423
Non-current liabilities:			
Obligations under capital leases	814	922	1,137
Debt on ice rinks (note 6)	40,750	25,151	43,351
Deferred tax liabilities (note 11)	692	667	618
	42,256	26,740	45,106
Total liabilities	58,602	63,037	62,529
Shareholders' equity:			
Share capital (note 7)	63,109	63,109	63,109
Contributed surplus	543	543	543
Deficit	(20,616)	(21,063)	(20,786)
	43,036	42,589	42,866
	\$101,638	\$105,626	\$105,395

Nature of operations (note 2)
Commitments and contingencies (note 10)

See accompanying notes to condensed consolidated interim financial statements.

Approved on behalf of the Board:

/s/ W. Grant Ballantyne Director

/s/ Joey St-Aubin Director

CANLAN ICE SPORTS CORP.

Condensed Consolidated Statements of Earnings and Comprehensive Income

(Unaudited)

(Expressed in thousands of Canadian dollars, except for per share amounts)

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Revenue:				
Ice rinks (note 14)	\$16,351	\$15,866	\$36,778	\$35,710
Expenses:				
Ice rinks	14,551	14,334	29,120	28,376
Earnings from operations	1,800	1,532	7,658	7,334
General and administration expenses	1,076	1,066	2,253	2,093
Earnings before the undernoted	724	466	5,405	5,241
Other expenses:				
Depreciation	1,285	1,215	2,566	2,457
Other	(29)	(25)	(25)	(21)
	1,256	1,190	2,541	2,436
Finance costs (income):				
Finance costs	773	974	1,552	1,780
Finance income	(91)	(47)	(178)	(188)
	683	927	1,374	1,592
Earnings (loss) before taxes	(1,215)	(1,651)	1,490	1,213
Deferred income tax recovery (expense)	230	421	(643)	(403)
Net earnings (loss) and comprehensive income	(985)	(1,230)	847	810
Basic and fully diluted earnings (loss) per common share	\$ (0.07)	\$ (0.09)	\$0.06	\$ 0.06
Weighted average common shares issued for basic and diluted earnings (loss) per share calculations	13,337,448	13,337,448	13,337,448	13,337,448

See accompanying notes to condensed consolidated interim financial statements.

CANLAN ICE SPORTS CORP.

Condensed Consolidated Statements of Changes in Equity

(Unaudited)

(Expressed in thousands of Canadian dollars)

	Share capital	Contributed surplus	Deficit	Total
Balance, January 1, 2010	\$ 63,109	\$ 543	\$ (21,596)	\$ 42,056
Net earnings and comprehensive income	-	-	810	810
Balance, June 30, 2010	63,109	543	(20,786)	42,866
Net earnings and comprehensive income	-	-	(77)	(77)
Dividends to common shareholders	-	-	(200)	(200)
Balance, December 31, 2010	63,109	543	(21,063)	42,589
Net earnings and comprehensive income	-	-	847	847
Dividends to common shareholders	-	-	(400)	(400)
Balance, June 30, 2011	\$ 63,109	\$ 543	\$ (20,616)	\$ 43,036

See accompanying notes to condensed consolidated interim financial statements.

CANLAN ICE SPORTS CORP.

Condensed Consolidated Statements of Cash Flows
(Unaudited)
(Expressed in thousands of Canadian dollars)

For six months ended June 30, 2011 and 2010

	2011	2010
Cash provided by (used in):		
Operations:		
Net earnings and comprehensive income	\$ 847	\$ 810
Items not involving cash:		
Depreciation	2,566	2,457
Gain on sale of assets	(2)	(5)
Deferred income taxes	643	403
Net finance costs	1,374	1,592
Net change in non-cash working capital (note 15)	(4,385)	(5,231)
Interest paid	(1,504)	(1,733)
Interest received	32	33
	(429)	(1,674)
Financing:		
Principal repayments of debt on ice rinks	(546)	(585)
Principal repayments on obligations under capital lease	(275)	(359)
Payment of dividends on common shares	(400)	-
	(1,221)	(944)
Investments:		
Proceeds on sale of assets	3	5
Expenditures on property plant and equipment	(635)	(1,306)
Purchase of ice rink property (note 5)	(3,846)	-
Other assets	(99)	(150)
	(4,577)	(1,451)
Effect of changes in foreign currency rates on cash and cash equivalents	(22)	-
Decrease in cash and cash equivalents	(6,249)	(4,069)
Cash and cash equivalents, beginning of period	8,903	9,213
Cash and cash equivalents, end of period	\$ 2,654	\$ 5,144

Supplemental cash flow information (note 15).

See accompanying notes to condensed consolidated interim financial statements.

CANLAN ICE SPORTS CORP.

Notes to Condensed Consolidated Interim Financial Statements
(Unaudited)

(Tabular amounts expressed in thousands of Canadian dollars, except share and per share amounts)

Six months ended June 30, 2011 and 2010

1. Reporting entity:

Canlan Ice Sports Corp. and its subsidiaries (collectively referred to as the Company) focus on the development, lease, acquisition and operation of multi-purpose recreation and entertainment facilities. Canlan Ice Sports Corp. is a company incorporated in Canada, whose shares are publicly traded on the Toronto Stock Exchange using the trading symbol "ICE". The Company's head office is located at 6501 Sprott Street, Burnaby, British Columbia, Canada.

2. Nature of operations:

The Company has long-term debt with principal payments coinciding with the Company's seasonal business such that the Company expects that it will not require shareholder support for financing during the off peak hockey season. In addition, the long-term debt agreements have maturity dates in 2014 and 2018 to provide the Company with liquidity over a reasonable period of time. The Company has a working capital deficiency of \$9,928,000 as the Company finances a portion of its long-term assets through customer deposits.

3. Basis of preparation:

(a) Statement of compliance:

The condensed consolidated interim financial statements of the Company have been prepared under International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) incorporating Interpretations issued by the IFRS Interpretations Committee (IFRICs). These statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and have been prepared in accordance with the accounting policies the Company expects to adopt in its December 31, 2011 consolidated annual financial statements. These accounting policies are based on the IFRS and IFRICs that the Company expects to be applicable at that time. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

The disclosures concerning the transition from pre-changeover Canadian generally accepted accounting principles (Canadian GAAP) to IFRS are included in the first-time adoption of IFRS note (note 16). In preparing these condensed consolidated interim financial statements, management has amended certain accounting methods formerly applied in the Canadian GAAP financial statements to comply with IFRS. The comparative figures for 2010 were restated to reflect these adjustments.

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Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

(Tabular amounts expressed in thousands of Canadian dollars, except share and per share amounts)

Six months ended June 30, 2011 and 2010

3. Basis of preparation (continued):

(b) Basis of measurement:

The condensed consolidated interim financial statements have been prepared on the historical cost basis, except for the following items:

- Cash and cash equivalents are measured at fair value;
- Derivative financial instruments are measured at fair value; and
- Liabilities for cash-settled stock-based payment arrangements are measured at fair value.

(c) Functional and presentation currency:

The condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

(d) Critical accounting estimates and judgments:

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies. Estimates, judgments and underlying assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities are reviewed on an ongoing basis. Actual results may differ from these estimates.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates have a higher risk of causing a significant adjustment to the carrying amount of assets and liabilities are valuation of facilities, valuation and recognition of income taxes and depreciation methods.

4. Significant accounting policies:

The significant accounting policies applied in the preparation of these condensed consolidated interim financial statements are set out below. These policies have been consistently applied to the periods presented, unless otherwise stated.

(a) Basis of consolidation:

(i) Subsidiaries:

These condensed consolidated interim financial statements includes 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.

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(Unaudited)

(Tabular amounts expressed in thousands of Canadian dollars, except share and per share amounts)

Six months ended June 30, 2011 and 2010

4. Significant accounting policies (continued):

(a) Basis of consolidation (continued):

(i) Subsidiaries (continued):

Subsidiaries are entities controlled by the Company. The statements of position of the subsidiaries are included in these condensed consolidated interim financial statements from the date that control commences. They are de-consolidated from the date that control ceases. The accounting policies of subsidiaries are aligned with those adopted by the Company.

(ii) Transactions eliminated on consolidation:

Intra-Company balances are eliminated in preparing these condensed consolidated interim financial statements.

(b) Inventory:

Inventory consists of sports equipment, supplies and sportswear held for sale, and food and beverage supplies. Inventory is recorded at the lower of cost and estimated net realizable value. The cost of inventories is based on the first-in first-out principle. Net realizable value is the estimated selling price in the ordinary course of business.

(c) Property, plant and equipment:

(i) Recognition and measurement:

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, costs directly attributable to bringing the assets to a working condition for their intended use, and borrowing costs on qualifying assets.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized within other income in profit or loss on a net basis.

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Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

(Tabular amounts expressed in thousands of Canadian dollars, except share and per share amounts)

Six months ended June 30, 2011 and 2010

4. Significant accounting policies (continued):

(c) Property, plant and equipment (continued):

(ii) Subsequent costs:

The cost of replacing a component of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(iii) Depreciation:

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative periods are as follows:

Asset	
Buildings	40 years
Rink board systems	25 years
Refrigeration equipment	20 years
Building improvements	10 years
Machinery and equipment	10 years
Computers, furniture and fixtures	5 years
Ice resurfacing equipment	5 years

Depreciation methods, useful lives and residual values are reviewed at each financial reporting period and adjusted if appropriate.

(d) Investment property:

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is carried at cost less depreciation.

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(Unaudited)

(Tabular amounts expressed in thousands of Canadian dollars, except share and per share amounts)

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4. Significant accounting policies (continued):

(e) Leased assets:

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognized in the Company's condensed consolidated interim balance sheet.

(f) Lease payments:

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for in the period in which they are incurred.

(g) Revenue recognition:

(i) Ice and field time:

Revenue from ice contracts, programs and leagues is measured at the fair value of the consideration received or receivable, net of returns. Revenue is recognized as games and lessons are being played.

(ii) Goods sold:

Revenue from the sale of food and beverage and sports store goods is measured at the fair value of the consideration received or receivable, net of returns. Revenue is recognized when the goods are transferred to the buyer.

(iii) Sponsorship:

Revenue from sponsorship contracts is recognized on a straight-line basis over the term of the contract.

(iv) 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. Revenue from such management contracts is recognized over the term of the contract.

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(Unaudited)

(Tabular amounts expressed in thousands of Canadian dollars, except share and per share amounts)

Six months ended June 30, 2011 and 2010

4. Significant accounting policies (continued):

(g) Revenue recognition (continued):

(v) Rental income:

Rental income is recognized in profit or loss on a straight-line basis over the term of the lease.

(h) Foreign currency:

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss.

(i) Financial instruments:

(i) Non-derivative financial assets:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables.

Cash and cash equivalents are classified as available for sale, which are measured at fair value.

(ii) Non-derivative financial liabilities:

The Company has the following non-derivative financial liabilities: debt on ice rinks and accounts payable and accrued liabilities. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

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Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

(Tabular amounts expressed in thousands of Canadian dollars, except share and per share amounts)

Six months ended June 30, 2011 and 2010

4. Significant accounting policies (continued):

(i) Financial instruments (continued):

(iii) Derivative financial instruments:

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

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 profit or loss with a corresponding asset or liability recorded on the condensed consolidated balance sheet. Payments and receipts under the interest rate swap contract are recognized as adjustments to interest expense on long-term debt.

(j) Earnings per share:

The Company presents basic and diluted earnings per share (EPS) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, if any.

(k) Employee benefits:

(i) Defined contribution plans:

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value. 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 \$156,000 (2010 - \$160,000) in respect of the Company's contributions.

(ii) Share-based:

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is re-measured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as compensation expense in profit or loss.

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Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

(Tabular amounts expressed in thousands of Canadian dollars, except share and per share amounts)

Six months ended June 30, 2011 and 2010

4. Significant accounting policies (continued):

(l) Income tax:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(m) Impairment:

(i) Financial assets:

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy.

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Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

(Tabular amounts expressed in thousands of Canadian dollars, except share and per share amounts)

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4. Significant accounting policies (continued):

(m) Impairment (continued):

(i) Financial assets (continued):

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets:

The carrying amounts of the Company's property, plant and equipment and investment properties are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or CGU).

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

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(Unaudited)

(Tabular amounts expressed in thousands of Canadian dollars, except share and per share amounts)

Six months ended June 30, 2011 and 2010

4. Significant accounting policies (continued):

(n) Segment reporting:

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the Company's management to make decisions about resources to be allocated to the segment and assess its performance. Segment results include items directly attributable to a segment.

(o) New and amended accounting standards and interpretations:

A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended June 30, 2011, and have not been applied in preparing these condensed consolidated interim financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Company.

5. Property, plant and equipment - facilities:

June 30, 2011	Cost	Accumulated amortization	Net book value
Land	\$ 14,146	\$ -	\$ 14,146
Buildings and building improvements	91,182	30,482	60,700
Rink board systems	3,459	1,666	1,793
Refrigeration equipment	8,502	5,028	3,474
Machinery and equipment	8,442	5,110	3,332
Computers, furniture and fixtures	7,512	5,239	2,273
Ice resurfacing equipment	4,021	2,970	1,051
	<u>\$ 137,264</u>	<u>\$ 50,495</u>	<u>\$ 86,769</u>

December 31, 2010	Cost	Accumulated amortization	Net book value
Land	\$ 13,472	\$ -	\$ 13,472
Buildings and building improvements	89,131	29,644	59,487
Rink board systems	3,226	1,601	1,625
Refrigeration equipment	8,000	4,828	3,172
Machinery and equipment	8,144	4,859	3,285
Computers, furniture and fixtures	7,253	4,803	2,450
Ice resurfacing equipment	3,883	2,774	1,109
	<u>\$ 133,109</u>	<u>\$ 48,509</u>	<u>\$ 84,600</u>

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(Unaudited)

(Tabular amounts expressed in thousands of Canadian dollars, except share and per share amounts)

Six months ended June 30, 2011 and 2010

5. Property, plant and equipment – facilities (continued):

On June 14, 2011, the Company completed the purchase of an ice-rink facility in Romeoville, Illinois. The purchase price was \$3,846,000 and the assets purchased have been recorded in the appropriate classes of property plant and equipment.

6. Debt on ice rinks:

	Maturity dates	Interest rates	June 30, 2011	December 31, 2010
Fixed rate	2018	6.79%	\$ 27,000	\$ 27,000
Variable rate	2014	Prime + 1.25%	11,368	11,671
	2014	Prime + 1.25%	5,409	5,700
			43,777	44,371
Less: deferred financing costs			(301)	(349)
			43,476	44,022
Current portion			2,726	18,871
Non-current portion			\$ 40,750	\$ 25,151

As at June 30, 2011, 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 June 30, 2011, the balance outstanding was \$27,000,000;
- \$13,000,000 loan maturing on September 30, 2014, 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 June 30, 2011, the balance outstanding was \$11,368,000;
- \$7,000,000 loan maturing on September 30, 2014, interest at Prime rate plus 1.25% per annum, payable monthly. At June 30, 2011, the balance outstanding was \$5,409,000.

Amortization of deferred financing costs totaling \$48,000 (2010 - \$48,000) was recorded as finance 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.

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(Unaudited)

(Tabular amounts expressed in thousands of Canadian dollars, except share and per share amounts)

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6. Debt on ice rinks (continued):

The Company has available, a \$1,000,000 uncommitted operating line of credit that was unused at June 30, 2011. 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. In addition, the Company has available, a \$5,000,000 committed revolving credit facility that was unused at June 30, 2011. Outstanding amounts would incur interest at Prime rate plus 1.25%. The revolving credit facility expires on September 30, 2014. Subsequent to June 30, 2011, the Company drew \$2,000,000 from this credit facility to partially fund the acquisition of an ice rink facility (note 5).

7. 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:		
Balance, December 31, 2010 and June 30, 2011	13,337,448	\$ 63,109

On June 8, 2011, the Company declared a quarterly dividend of \$0.015 per share, which was paid on July 15, 2011. On March 22, 2011, the Company declared a quarterly dividend of \$0.015 per share, which was paid on April 15, 2011.

8. 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 table below summarizes the change in the number of SAR during the six months ended June 30, 2011:

	Number of SAR	Weighted average exercise price
Number of SAR outstanding, December 31, 2010	737,750	\$ 1.77
Exercised	(47,000)	1.10
Balance, June 30, 2011	690,750	\$ 1.81

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8. Stock-based compensation (continued):

The following table summarizes information about the stock appreciation rights outstanding at June 30, 2011:

Exercise price	Rights outstanding			Rights exercisable	
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$ 0.80	93,750	29 months	\$ 0.80	52,667	\$ 0.80
\$ 1.50	35,000	34 months	\$ 1.50	23,333	\$ 1.50
\$ 2.00	562,000	29 months	\$ 2.00	-	\$ 2.00

During the six months ended June 30, 2011, the Company recognized compensation expense of \$77,000 (2010 - \$49,000) in respect of the SAR Plan. This amount was calculated in accordance with the fair value method of accounting.

The fair value of SAR was estimated using the Black-Scholes pricing model with the following assumptions:

	June 30, 2011	June 30, 2010
Risk free interest rate	3.61%	3.61%
Expected dividend yield	3%	0%
Expected lives of rights	3 - 5 years	5 years
Expected volatility	53%	47%

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9. Capital risk management:

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

The Company's objectives when managing its capital are:

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

The Company's debt on ice rinks (note 6) 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. Debt to tangible net worth ratio at June 30, 2011 is calculated as follows:

Shareholders' equity	\$ 43,036
Less:	
Net deferred tax assets	(2,108)
Net worth	\$ 40,928
<hr/>	
Current and long-term portions of:	
Debt on ice rinks	\$ 43,777
Capital leases	1,345
Total debt	\$ 45,122
<hr/>	
Debt to tangible net worth ratio	1.10

The Company has not made any changes to its overall capital management strategy during the six months ended June 30, 2011.

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10. Commitments and contingencies:

- (a) At June 30, 2011, 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 as at June 30, 2011 are as follows:

Twelve months ending June 30	Langley Twin Rinks	Ice Sports Victoria Park	Ice Sports York	Ice Sports Vineland	Ice Sports Fort Wayne
2012	\$ 220	\$ 328	\$ 298	\$ 314	\$ 509
2013	220	328	298	157	575
2014	220	328	298	-	603
2015	110	328	298	-	633
2016	-	328	298	-	676
Thereafter	-	1,175	8,433	-	9,902

- (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.

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10. 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.

11. Income taxes:

The tax effects of temporary differences that give rise to deferred tax assets and liabilities are presented below:

	June 30, 2011	December 31, 2010
Deferred tax assets:		
Deferred revenue	\$ 1,603	\$ 2,165
Properties	1,086	1,094
Unrealized loss on financial instruments	25	69
Unused tax losses	86	86
Total deferred tax assets	2,800	3,414
Deferred income tax liabilities:		
Properties	(692)	(667)
Net deferred tax assets	\$ 2,108	\$ 2,747

12. 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. Management estimates that these differences are not material to the financial statements as at June 30, 2011.

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 6). The fair value of the instrument has been presented as a current liability on the balance sheet. At June 30, 2011, the fair value was \$81,000. Changes in the fair value of the instrument are recognized in net earnings. For the six months ended June 30, 2011, a gain of \$146,000 (2010 - \$155,000) was recognized.

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12. Financial instruments (continued):

(b) Interest rate risk:

The terms of the Company's outstanding debt are described in note 6. 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 \$54,000 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 June 30, 2011 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.

13. Related party transactions:

- (a) During the six months ended June 30, 2011, the Company expensed \$57,000 (2010 - \$54,000) in directors' fees.
- (b) The Chairman of the Board of Directors of the Company is a Director, and 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 six months ended June 30, 2011 was \$22,700 (2010 - \$22,600).

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13. Related party transactions (continued):

(c) Key management personnel compensation comprised the following:

Six months ended	June 30, 2011	June 30, 2010
Short-term employee benefits	\$ 838	\$ 739
Post employment benefits	29	30
Exercise of stock appreciation rights	17	113
	\$ 884	\$ 882

(d) Directors and executive officers of the Company participate in the Company's stock appreciation rights program (note 8). During the six months ended June 30, 2011, the Company recognized compensation expense of \$77,000 (2010 - \$49,000) in respect of the program.

(e) The Company's majority shareholder is Bartrac Investments Ltd. (Bartrac). Two of the Company's Directors are also Directors of Bartrac. During the six months ended June 30, 2011 and 2010, there were no related party transactions between the Company and Bartrac.

14. 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:

Six months ended	June 30, 2011	June 30, 2010
Ice and soccer	\$ 26,438	\$ 25,638
Restaurant and lounge	6,472	6,384
Sports store	1,060	1,028
Management and consulting fees	113	168
Tournaments, space rental, sponsorship and other	2,695	2,492
	\$ 36,778	\$ 35,710

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

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15. Supplemental cash flow information:

(a) Net changes in non-cash working capital:

Six months ended	June 30, 2011	June 30, 2010
Accounts receivable	\$ (224)	\$ (23)
Inventory	63	(48)
Prepaid expenses	(587)	(981)
Accounts payable and accrued liabilities	942	377
Deferred revenue and customer deposits	(4,579)	(4,556)
	\$ (4,385)	\$ (5,231)

(b) Supplemental cash flow information:

Six months ended	June 30, 2011	June 30, 2010
Non-cash transactions:		
Capital lease obligations	\$ 164	\$ 642

16. First-time adoption of IFRS:

The significant accounting policies in note 4 have been applied in preparing the condensed consolidated interim financial statements for the six months ended June 30, 2011, the comparative information for the periods ended June 30, 2010 and December 31, 2010, and the preparation of an opening IFRS balance sheet on January 1, 2010, the date of transition to IFRS (Transition Date).

The guidance for first-time adoption of IFRS is set out in IFRS 1 *First-time Adoption of IFRS*. IFRS 1 requires that the standards are applied retrospectively at the Transition Date with all adjustment to assets and liabilities taken to retained earnings, unless certain exemptions are applied. The Company elected to take the IFRS 1 optional exemption to apply the requirements of IAS 23 *Borrowing Costs* prospectively from the Transition Date.

IFRS 1 also outlines specific guidelines where a first-time adopter must not apply the standards retrospectively. The Company has complied with these mandatory exceptions for retrospective application.

In preparing the opening IFRS balance sheet and comparative information for the six months ended June 30, 2010, and the year ended December 31, 2010, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and discussion.

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16. First-time adoption of IFRS (continued):

Reconciliation of net loss and comprehensive income:

	Three months ended June 30, 2010		Notes	IFRS
	Canadian GAAP	Effect of transition to IFRS		
Revenue:				
Ice rinks	\$ 15,745	\$ 121	i	\$ 15,866
Expenses:				
Ice rinks	14,320	14	f	14,334
Earnings from operations	1,425	107		1,532
General and administrative expenses	1,127	(61)	e, f	1,066
Earnings before the undernoted	298	168		466
Other expenses (income):				
Depreciation	1,172	43	b - d	1,215
Interest	849	(849)	i	-
Held-for-trading financial liabilities	(43)	43	i	-
Other	(25)	-		(25)
	1,953	(763)		1,247
Finance costs (income):				
Finance costs	-	974	i	974
Finance income	-	(47)	i	(47)
	-	927		927
Loss before taxes	(1,655)	4		(1,651)
Deferred income tax recovery	422	(1)	g	421
Net earnings (loss) and comprehensive income	\$ (1,233)	\$ 3		\$ (1,230)
Basic and fully diluted earnings per share	\$ (0.09)			\$ (0.09)

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16. First-time adoption of IFRS (continued):

Reconciliation of net earnings and comprehensive income:

	Six months ended June 30, 2010			
	Canadian GAAP	Effect of transition to IFRS	Notes	IFRS
Revenue:				
Ice rinks	\$ 35,618	\$ 92	i	\$ 35,710
Expenses:				
Ice rinks	28,345	31	f	28,376
Earnings from operations	7,273	61		7,334
General and administrative expenses	2,289	(196)	e, f	2,093
Earnings before the undernoted	4,984	257		5,241
Other expenses (income):				
Depreciation	2,369	88	b - d	2,457
Interest	1,657	(1,657)	i	-
Held-for-trading financial liabilities	(155)	155	i	-
Other	(21)	-		(21)
	3,850	(1,414)		2,436
Finance costs (income):				
Finance costs	-	1,780	i	1,780
Finance income	-	(88)	i	(88)
	-	1,592		1,592
Earnings before taxes	1,134	79		1,213
Deferred income tax expense	(365)	(38)	g	(403)
Net earnings and comprehensive income	\$ 769	\$ 41		\$ 810
Basic and fully diluted earnings per share	\$ 0.06			\$ 0.06

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16. First-time adoption of IFRS (continued):

Reconciliation of net earnings and comprehensive income:

	Twelve months ended December 31, 2010			
	Canadian GAAP	Effect of transition to IFRS	Notes	IFRS
Revenue:				
Ice rinks	\$ 69,849	\$ 60	i	\$ 69,909
Expenses:				
Ice rinks	55,565	62	f	55,627
Earnings from operations	14,284	(2)		14,282
General and administrative expenses	4,753	(189)	e, f	4,564
Earnings before the undernoted	9,531	187		9,718
Other expenses (income):				
Depreciation	4,813	173	b - d	4,986
Interest	3,296	(3,296)	i	-
Foreign exchange	(43)	-		(43)
Sale of assets	(35)	-		(35)
Held-for-trading financial liabilities	(341)	341	i	-
	7,690	(2,782)		4,908
Finance costs (income):				
Finance costs	-	3,420	i	3,420
Finance income	-	(405)	i	(405)
	-	3,015		3,015
Earnings before taxes	1,841	(46)		1,795
Deferred income tax expense	1,134	(72)	g	1,062
Net earnings and comprehensive income	\$ 707	\$ 26		\$ 733
Basic and fully diluted earnings per share	\$ 0.05			\$ 0.05

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16. First-time adoption of IFRS (continued):

Reconciliation of balance sheet:

	January 1, 2010		Notes	IFRS
	Canadian GAAP	Effect of transition to IFRS		
Assets				
Current assets:				
Cash and cash equivalents	\$ 9,213	\$ -		\$ 9,213
Accounts receivable	1,845	-		1,845
Inventory	1,024	-		1,024
Prepaid expenses	496	-		496
Deferred tax assets	3,326	(3,326)	g	-
	15,904	(3,326)		12,578
Non-current assets:				
Property, plant and equipment - facilities	95,922	(9,493)	a - d	86,429
Investment properties	856	4,537	a, d	5,393
Deferred tax assets	521	3,951	g	4,472
Other assets	345	-		345
	97,644	(1,005)		96,639
	\$ 113,548	\$ (4,331)		\$ 109,217
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 5,360	\$ 510	e, f	\$ 5,870
Deferred revenue and customer deposits	12,019	-		12,019
Financial liability held-for-trading	568	-		568
Current portion of:				
Obligations under capital leases	534	-		534
Debt on ice rinks	2,685	-		2,685
	21,166	510		21,676
Non-current liabilities:				
Obligations under capital leases	912	-		912
Debt on ice rinks	43,910	-		43,910
Deferred tax liabilities	1,387	(724)	g	663
	46,209	(724)		45,485
Total liabilities	67,375	(214)		67,161
Shareholders' equity:				
Share capital	63,109	-		63,109
Contributed surplus	543	-		543
Deficit	(17,479)	(4,117)		(21,596)
	46,173	(4,117)		42,056
	\$ 113,548	\$ (4,331)		\$ 109,217

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16. First-time adoption of IFRS (continued):

Reconciliation of balance sheet:

	December 31, 2010			
	Canadian GAAP	Effect of transition to IFRS	Notes	IFRS
Assets				
Current assets:				
Cash and cash equivalents	\$ 8,903	\$ -		\$ 8,903
Accounts receivable	1,519	-		1,519
Inventory	1,041	-		1,041
Prepaid expenses	456	-		456
Deferred tax assets	2,585	(2,585)	g	-
	14,504	(2,585)		11,919
Non-current assets:				
Property, plant and equipment - facilities	94,128	(9,528)	a - d	84,600
Investment properties	856	4,398	a, d	5,254
Deferred tax assets	586	2,828	g	3,414
Other assets	439	-		439
	96,009	(2,302)		93,707
	\$ 110,513	\$ (4,887)		\$ 105,626
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 5,262	\$ 382	e, f	\$ 5,644
Deferred revenue and customer deposits	11,022	-		11,022
Financial liability held-for-trading	227	-		227
Current portion of:				
Obligations under capital leases	533	-		533
Debt on ice rinks	2,737	16,134	h	18,871
	19,781	16,516		36,297
Non-current liabilities:				
Obligations under capital leases	922	-		922
Debt on ice rinks	41,285	(16,134)	h	25,151
Deferred tax liabilities	1,845	(1,178)	g	667
	44,052	(17,312)		26,740
Total liabilities	63,833	(796)		63,037
Shareholders' equity:				
Share capital	63,109	-		63,109
Contributed surplus	543	-		543
Deficit	(16,972)	(4,091)		(21,063)
	46,680	(4,091)		42,589
	\$ 110,513	\$ (4,887)		\$ 105,626

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16. First-time adoption of IFRS (continued):

Reconciliation of balance sheet:

	June 30, 2010			
	Canadian GAAP	Effect of transition to IFRS	Notes	IFRS
Assets				
Current assets:				
Cash and cash equivalents	\$ 5,144	\$ -		\$ 5,144
Accounts receivable	1,868	-		1,868
Inventory	1,072	-		1,072
Prepaid expenses	1,478	-		1,478
Deferred tax assets	2,962	(2,962)	g	-
	12,524	(2,962)		9,562
Non-current assets:				
Property, plant and equipment - facilities	95,566	(9,511)	a - d	86,055
Investment properties	856	4,468	a, d	5,324
Deferred tax assets	114	3,912	g	4,026
Other assets	428	-		428
	96,964	(1,131)		95,833
	\$ 109,488	\$ (4,093)		\$ 105,395
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 5,904	\$ 345	e, f	\$ 6,249
Deferred revenue and customer deposits	7,461	-		7,461
Financial liability held-for-trading	414	-		414
Current portion of:				
Obligations under capital leases	593	-		593
Debt on ice rinks	2,706	-		2,706
	17,078	345		17,423
Non-current liabilities:				
Obligations under capital leases	1,137	-		1,137
Debt on ice rinks	43,351	-		43,351
Deferred tax liabilities	980	(362)	g	618
	45,468	(362)		45,106
Total liabilities	62,546	(17)		62,529
Shareholders' equity:				
Share capital	63,109	-		63,109
Contributed surplus	543	-		543
Deficit	(16,710)	(4,076)		(20,786)
	46,942	(4,076)		42,866
	\$ 109,488	\$ (4,093)		\$ 105,395

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16. First-time adoption of IFRS (continued):

Notes to the IFRS reconciliations above:

(a) Reclassification of property plant and equipment:

Under Canadian GAAP, the carrying amount of ice rink properties 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 required to be classified separately as investment properties (note 4(d)). As a result, the carrying amount of these properties has been reclassified to investment properties under IFRS.

(b) Component accounting:

Under IFRS, component accounting has been applied to property, plant and equipment (note 4(c)(iii)). 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. As a result, an adjustment to increase accumulated depreciation and depreciation expense has been recorded.

(c) Start up costs:

Under 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 do not qualify for capitalization and have been expensed. As a result, an adjustment has been recorded to decrease the carrying value of property plant and equipment at January 1, 2010, and decrease depreciation expense.

(d) Impairment:

Canadian GAAP and IFRS have different measurement methodologies when testing property, plant and equipment and investment properties for impairment. As a result of this change in methodology, as at January 1, 2010 the Company recognized impairment losses of \$1,952,000 under IFRS as the carrying amounts of certain of the Company's properties were in excess of their fair value less cost to sell or value-in-use.

(e) Share-based compensation:

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 Canadian GAAP, the Company measured the liability related to its SAR Plan at intrinsic values. As a result of revaluing the SAR to fair value at each reporting date, an adjustment was recorded to increase the related liability as at January 1, 2010, and decrease the related liability and compensation expense for the six months ended June 30, 2010 and 12 months ended December 31, 2010.

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16. First-time adoption of IFRS (continued):

Notes to the IFRS reconciliations above (continued):

(f) Short-term employee benefits:

On transition to IFRS, accrued liabilities were increased to record certain short-term employee benefits related to the Company's salaried employees. As a result, accounts payable and accrued liabilities have increased as at January 1, 2010, June 30, 2010 and December 31, 2010, and accordingly, compensation expense was adjusted for the six months ended June 30, 2010 and the 12 months ended December 31, 2010.

(g) Deferred tax:

The above adjustments resulted in changes to temporary differences between accounting and tax values of assets and liabilities. As a result, adjustments to deferred tax assets and liabilities were made at each of the reporting periods presented in the reconciliations above. In addition, under Canadian GAAP, deferred tax assets and liabilities are classified as current or non-current as appropriate, whereas IFRS prescribes that all deferred tax is classified as non-current in the balance sheet. Therefore, a reclassification of deferred tax assets from current to non-current has been recorded.

(h) Classification of debt:

As at December 31, 2010, the Company had debt on ice rinks of \$17,371,000 maturing within 12 months of the reporting date. Subsequently, on March 22, 2011, the Company entered into an agreement to refinance the debt on a long-term basis and accordingly, under Canadian GAAP \$16,134,000 of this debt was classified as a non-current liability as the debt renewal agreement was completed prior to the issuance date of the consolidated financial statements. Under IFRS classification of debt held at the end of the reporting period must reflect the terms and conditions that existed as at that date and therefore, the subsequent refinancing of the Company's debt on a long-term basis cannot be considered. As a result, \$16,134,000 of this debt has been reclassified to current liabilities under IFRS as at December 31, 2010.

(i) Presentation of finance income and expense:

Under Canadian GAAP, interest income earned on cash and cash equivalents was presented as part of revenue and interest expense on debt and finance leases was presented as part of other expenses (income). In addition, fair value changes associated with the Company's held for trading financial liabilities was also included as part of other expenses (income). Under IFRS, finance income and expense is presented separately in the statement of earnings and comprehensive income, and accordingly, certain presentational reclassifications were recorded on transition.

CANLAN ICE SPORTS CORP.

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

(Tabular amounts expressed in thousands of Canadian dollars, except share and per share amounts)

Six months ended June 30, 2011 and 2010

16. First-time adoption of IFRS (continued):

Statement of cash flows:

The adoption of IFRS had no impact on the net cash flows of the Company. The changes made to the presentation of the statement of cash flows as a result of the transition to IFRS have resulted in certain reclassifications; however, as there have been no significant changes in the net cash flows from operating, financing or investing activities, no reconciliations have been presented.



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

**For the Six Months Ended June 30, 2011
As of August 9, 2011**

Canlan Ice Sports Corp.

Management's Discussion and Analysis

The following management discussion and analysis (MD&A) summarizes significant factors affecting the financial condition of Canlan Ice Sports Corp. ("Canlan", the "Company", "we" "our" or "us") as at June 30, 2011 and the consolidated operating results for the three and six months ended June 30, 2011 compared to the three and six months ended June 30, 2010. This document should be read in conjunction with our unaudited condensed consolidated financial statements for the period ended June 30, 2011, the accompanying notes, and our audited consolidated financial statements for the years ended December 31, 2010 and December 31, 2009. All dollar amounts included in this MD&A are in Canadian dollars.

We have prepared these consolidated interim financial statements in accordance with International Financial Reporting Standards ("IFRS"). Contained in the discussion we also disclose financial results dating from before our transition to IFRS. These are identified by the title Previous GAAP.

In the following discussion, EBITDA (earnings before interest, taxes, depreciation and amortization) is often used as a measure of financial performance. However, EBITDA is not a term that has specific meaning in accordance with IFRS, and may be calculated differently by other companies. EBITDA is reconciled to net earnings in this MD&A.

Additional information relating to our Company, including quarterly reports and our annual information form, is filed on SEDAR and can be viewed at www.sedar.com.

The date of this MD&A is August 9, 2011.

Executive Overview

Year-to-date 2011 financial highlights and developments

- Total revenue for the six months ended June 30, 2011 was \$36.8 million, an increase of 3.0% over 2010;
- EBITDA of \$5.4 million increased by 3.1% from prior year;
- Net earnings of \$847,000 increased by 4.6% compared to 2010;
- Quarterly dividend payments of \$0.015 per common share were made in each of January and April;
- On March 22, 2011 we successfully refinanced 40% of our term debt which was coming due in September 2011;
- On June 14, 2011, Canlan added to its property portfolio by completing the purchase of an ice facility in Romeoville, Illinois, for \$3.8 million
- Completed transition from previous Canadian GAAP to IFRS.

Overview of the Company

Canlan Ice Sports Corp. is a leading operator of recreational and entertainment 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 950 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: 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 22 facilities in Canada and the United States containing 64 full sized ice sheets, and two indoor soccer fields. The Company owns 12 of these facilities containing 1.3 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 sector.

We operate primarily in the sports and recreation segment, with a focus on ice hockey and indoor soccer. Our largest single revenue source within this segment is adult hockey, catering to both men and women operating under the Adult Safe Hockey League (ASHL) banner.

Facility Portfolio:

On June 14, 2011, we completed the purchase of an ice-rink facility in the Chicago, Illinois suburb of Romeoville. The purchase price was US\$3.8 million and a combination of available cash on hand and bank financing was utilized to make the acquisition. The 106,000 square foot facility contains three ice pads, concession, and a proshop. The facility will be named Ice Sports Romeoville and is home to a large youth hockey organization in the community. The geographic location of our owned, leased and managed properties, is as follows:

<u>Canada:</u>	Facilities	Surfaces
British Columbia	5	15
Alberta	1	2
Saskatchewan	3	8
Manitoba	1	4
Ontario	6	22
Quebec	2	6
	18	57
<u>USA:</u>		
New Jersey	1	2
Indiana	2	4
Illinois	1	3
	4	9
	22	66

Canlan is a publicly traded Canadian Company with its shares listed on the Toronto Stock Exchange (TSX) using the trading symbol **ICE**. Canlan's shares were first listed for trading on March 1, 1990. There are approximately 13.3 million shares outstanding and have traded in the \$1.73 to \$1.96 range during the quarter. The Company has not issued any shares since November 2004.

The Company derives revenue from five primary sources:

- Ice/field sales and internal programming
- Food and beverage
- Sports stores
- Management & consulting
- Other, which includes tournaments, space rental and lease

Selected Financial Information

The following selected consolidated financial information is for the six months ended and as at June 30, 2011, 2010 and 2009. This data should be read together with the unaudited consolidated financial statements for the periods ended June 30, 2011, 2010, and 2009.

Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards (except as noted), and are stated in Canadian dollars.

<i>in thousands, except earnings per share (unaudited)</i>	IFRS	IFRS	Previous GAAP
As at and for the six months ended June 30,	2011	2010	2009
Statement of Operations Data:			
Total revenue (1)	\$36,778	\$35,710	\$34,052
Direct expenses (2)	29,120	28,376	26,498
General & administration expenses	2,253	2,093	2,100
	5,405	5,241	5,454
Other expenses (3)	3,915	4,028	3,760
Earnings before tax	1,490	1,213	1,694
Current and deferred tax expense	643	403	646
Net earnings and comprehensive income	\$847	\$810	\$1,048
Basic and fully diluted earnings per share	\$0.06	\$0.06	\$0.08
Balance Sheet Data:			
Cash	\$2,654	\$5,144	\$3,821
Current assets (excluding cash)	3,764	4,418	6,479
Capital assets and investment properties	91,953	91,379	97,464
Other assets	3,267	4,454	1,678
Total assets	\$101,638	\$105,395	\$109,442
Current liabilities, excluding debt	\$13,089	\$14,124	\$12,045
Mortgage debt	43,476	46,057	48,617
Equipment leases	1,345	1,730	1,386
Deferred tax liabilities	692	618	1,507
Preferred shares (classified as debt)	-	-	1,400
Total liabilities	\$58,602	\$62,529	\$64,955

- (1) Total revenue is comprised of ice rentals, food & beverage sales, sports store sales, sponsorships, advertising and management fees.
- (2) Direct expenses include all operating costs related to the operation of our facilities, excluding depreciation.
- (3) Other expenses include depreciation, and finance income and costs.

Review of Operations – Three months ended June 30, 2011

Comparative Results

Total revenue for the second quarter of \$16.4 million, increased by \$485,000 or 3.1% compared to 2010.

The largest source of the sales increase was from growth in ice revenue. Contract ice/field rentals, instructional programs and youth hockey leagues combined for an increase in sales of \$340,000. Revenue from our Adult Safe Hockey League (ASHL), while still the largest component of ice revenue at \$4.5 million, was consistent with the prior year.

Food & beverage revenue of \$3.2 million was unchanged from 2010 as revenue growth in the Prairie, Ontario and US regions were offset by declines in BC, where the effect of new driving laws still linger. Revised menus and special promotions have been established to help improve our food and beverage business overall.

Canlan operates ten sports stores that are located in the facilities the Company owns or leases. In addition, the Company rents space to third-party operators under long term leases in another five of its owned or leased facilities. Revenue from sports stores of \$541,000 increased by \$52,000 or 10.5% compared to the same time last year.

Revenue from facility management and consulting fees totalled \$51,000 compared to \$113,000 in 2010. We currently manage four facilities on behalf of third parties, one less than 2010.

Total direct operating expenses include all costs related to the operations of our facilities, in addition to the variable costs related to our food & beverage operations and retail. Total direct operating costs of \$14.6 million for the three months ended June 30, 2011, increased by \$217,000 or 1.5% compared to 2010. The year-over-year increase was mainly attributable to the general increase in wages and slightly higher utility costs due to increased Provincial energy surcharges.

Corporate general and administration costs of \$1.1 million remained steady compared to 2010. Included in corporate general and administration are costs related to management support services to all Ice Sports facilities, including accounting, marketing, operations, IT support, and human resources. Costs related to the consulting and management services division are also included in corporate administration expenses

EBITDA for the second quarter of \$724,000 increased by \$258,000 or 55.4%. As a percentage of revenue, EBITDA was 4.4% for Q2 compared to 2.9% a year ago.

Total interest expense related to our term debt and finance leases totalled \$773,000, a decrease of 9% from \$850,000 a year ago due to continued debt reduction. After recording an accounting gain on financial instruments of \$79,000 and deferred income tax recovery of \$230,000, net loss for the quarter was \$985,000, compared to \$1.2 million in 2010.

Review of Operations – Six months ended June 30, 2011

Comparative Results

Total revenue for the period of \$36.8 million, increased by \$1.1 million or 3.0% compared to 2010. Revenue is earned from the various sources as follows:

Six months ended June 30 (in thousands)

	2011	2010	% change
Ice and soccer sales	\$26,438	\$25,638	3%
Restaurant and lounge	6,472	6,384	1%
Sports store	1,060	1,028	3%
Sponsorship	364	279	30%
Tournament operations	1,358	1,234	10%
Management and consulting fees	113	168	-33%
Other	973	979	-1%
Total revenue	\$36,778	\$35,710	3%

The overall increase in revenue was principally due to ice and soccer revenue. Contract ice/field rentals, instructional programs, ASHL, youth hockey leagues, and drop-in programs all combined for an increase in sales of \$753,000. The ASHL generated approximately \$12.4 million of sales and makes up about 46% of ice and soccer sales.

Food & beverage revenue of \$6.5 million increased slightly compared to 2010 as revenue growth in the Prairie, Ontario and US regions were offset by declines in BC, where the effect of recent driving law changes continued to hamper sales. Revised menus and special promotions have been established to help improve traffic flow into the facilities' lounges and increase efficiencies.

Canlan operates ten sports stores that are located in the facilities the Company owns or leases. In addition, the Company rents space to third-party operators under long term leases in another five of its owned or leased facilities. Revenue from sports stores of \$1.1 million increased by \$32,000 or 3.1% compared to the prior year.

Sponsorship revenue fluctuates depending on timing of advertising campaigns. For the six months ended June 30, 2011, sponsorship revenue recognized was \$85,000 higher than 2010. Tournament operations increased revenue by \$124,000. Tournament operations are executed by Canlan's tournament division with the objective of delivering high-quality youth and adult hockey tournaments in Canlan and destination facilities across Canada and the US.

Revenue from facility management and consulting fees totalled \$113,000 compared to \$168,000 in the prior year. We currently manage four facilities on behalf of third parties, one less than 2010.

Other revenue, which includes space rental and vending revenue remained unchanged compared to 2010.

Total direct operating expenses include all costs related to the operations of our facilities, in addition to the variable costs related to our food & beverage operations and retail. Total direct operating costs of \$29.1 million for the six months ended June 30, 2011, increased by \$744,000 or 2.6% compared to 2010. The year-over-year increase was mainly attributable to the general increase in wages and higher utility costs due to increased Provincial energy surcharges.

Corporate general and administration costs of \$2.3 million increased by \$160,000 or 7.6% compared to 2010, mainly due to increased wages and consulting fees related to the IFRS transition, and labour studies to comply with Provincial legislation.

EBITDA for the period of \$5.4 million increased by \$164,000 or 3.1%. As a percentage of revenue, EBITDA was 14.7%, consistent with the prior year.

Total interest expense related to our term debt and finance leases totalled \$1.6 million, a decrease of \$228,000 compared to 2010. The decrease in interest expense is partially due to the reduction of debt but also, interest expense of \$124,000 was recorded in June 2010 to correct an administrative error made by our Bank. After recording an accounting gain on financial instruments of \$146,000, interest income of \$32,000, and deferred income tax expense of \$643,000, net earnings for the six months ended June 30, 2011 was \$847,000, compared to \$810,000 in 2010. Earnings per share was \$0.06, unchanged from 2010.

Contract Management and Consulting Services

The Company operates a Partnership Solutions division that provides various services to private groups and municipalities, from one time consulting engagements to long-term management contracts. In addition, this group seeks out opportunities from which the Company can expand its portfolio of recreation facilities either by acquisition or lease. The Partnership Solutions team is currently working on a number of new projects both in Canada and the USA.

Currently we are managing four facilities on behalf of municipalities and private investors. Two of these contracts are located in British Columbia, one in Alberta and one in Indiana, USA.

Earnings by Quarter

The Company's quarterly results for the last 8 quarters are as follows (in \$000's except earnings (loss) per share and unaudited):

	2011 - IFRS		2010 - IFRS				2009 - Previous GAAP	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Gross revenue	\$16,351	\$20,427	\$19,991	\$14,208	\$15,866	\$19,844	\$19,563	\$13,582
Operating costs	(14,551)	(14,569)	(14,066)	(13,186)	(14,334)	(14,041)	(13,285)	(12,358)
	1,800	5,858	5,925	1,022	1,532	5,803	6,278	1,224
General & administration	(1,076)	(1,177)	(1,319)	(1,152)	(1,066)	(1,027)	(855)	(1,185)
EBITDA	724	4,681	4,606	(130)	466	4,776	5,423	39
Depreciation	(1,285)	(1,281)	(1,274)	(1,254)	(1,215)	(1,243)	(1,143)	(1,117)
Finance costs	(683)	(691)	(690)	(733)	(927)	(665)	(826)	(908)
Other	29	(5)	25	24	25	4	75	96
Net earnings (loss) before taxes and other	(1,215)	2,704	2,667	(2,093)	(1,651)	2,872	3,529	(1,890)
Income taxes	230	(872)	(1,216)	557	421	(824)	(482)	529
Net earnings (loss)	\$(985)	\$1,832	\$1,451	\$(1,536)	\$(1,230)	\$2,048	\$3,047	\$(1,361)
Earnings (loss) per share	\$(0.07)	\$0.14	\$0.11	\$(0.12)	\$(0.09)	\$0.15	\$0.22	\$(0.10)

Review of Assets

The table below summarizes the Company's asset base:

<i>in thousands</i>	June 30, 2011	December 31, 2010
	IFRS - unaudited	
Ice rink facilities	\$86,769	\$84,600
Cash and cash equivalents	2,654	8,903
Investment properties	5,184	5,254
Accounts receivable	1,743	1,519
Prepaid expenses and other assets	1,043	456
Inventory	978	1,041
Deferred income taxes and other	3,267	3,853
	\$101,638	\$105,626

During the period, the Company spent \$635,000 (2010 - \$1.3 million) on capital expenditures to improve ice rink facilities and a further \$3.8 million to purchase Ice

Sports Romeoville. The acquisition was funded with available cash on hand at the date of completion. The use of cash for capital expenditures and working capital contributed to a net decrease in assets for the period.

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

Review of Liabilities

The table below summarizes the Company's capital structure:

<i>in thousands</i>	June 30, 2011	December 31, 2010
	IFRS - unaudited	
Mortgages payable	\$43,476	\$44,022
Deferred revenue and customer deposits	6,443	11,022
Accounts payable	6,565	5,644
Capital leases	1,345	1,455
Financial liability held for trading	81	227
Deferred income taxes	692	667
	58,602	63,037
Shareholders' equity	43,036	42,589
	\$101,638	\$105,626

Total interest bearing debt, which includes mortgages payable and capital leases was \$44.8 million as at June 30, 2011, a net decrease of \$656,000 from December 31, 2010. This decrease represents a combination of scheduled debt repayments, and additional leases to finance ice resurfacers and ice plant equipment.

At June 30, 2011, the working capital deficit was \$9.9 million compared to a deficit of \$24.4 million at December 31, 2010. A portion of the mortgage debt as at December 31, 2010 was reclassified pursuant to IFRS guidelines, as the portion of the debt which was coming due was not renewed until after the year end, on March 22, 2011. After adjusting for the long term portion of the renewed term debt, our working capital deficiency as at December 31, 2010 was \$7.9 million. Deferred revenue and customer deposits represent customer registration and rental fees received in advance of when ice is actually used. The decrease from \$11.0 million at December 31, 2010 to \$6.4 million at June 30, 2011 is due to the completion of the 2010/2011 Winter ASHL season, which results in a decrease in deferred revenue and the recognition of ice revenue in the statement of earnings and comprehensive income.

Mortgages

At June 30, 2011, our loans consist of three credit facilities, and have a combined annual debt service of \$5.8 million. Our annual principal reduction based on scheduled mortgage repayments will be \$2.7 million.

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. The balance of this loan at June 30, 2011 was \$27 million.
- \$13 million loan maturing September 30, 2014, 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%, to September 30, 2011. The balance of this loan at June 30, 2011 was \$11.4 million.
- \$7 million loan maturing September 30, 2014, variable interest rate of Prime plus 1.25%, amortized over 12 years with blended monthly payments. The prime rate is currently 3%. The balance of this loan at June 30, 2011 was \$5.4 million.

In addition, our Bank has also provided a \$5.0 million revolving loan that the Company can use as bridge financing for potential future property acquisitions. Subsequent to June 30, 2011, the Company drew \$2.0 million from this credit facility to fund the acquisition of Ice Sports Romeoville. Amounts outstanding under this facility incur interest at the Prime rate plus 1.25%.

We are in full compliance with all our debt covenants as at June 30, 2011.

Liquidity and Capital Resources

The Company's debt to equity ratio was 1.04:1 at the end of the second quarter, compared to 1.07:1 at December 31, 2010. The ratio has decreased principally due to the increase in equity resulting from year-to-date earnings and a reduction of debt.

During the first half of 2011, net cash used in operations was \$429,000 compared to a net usage of \$1.7 million in 2010. The difference is mainly due to improved rink operations and timing of sales tax payments. The majority of our cash is collected in the fourth quarter in the form of customer deposits to secure future ice time.

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

<i>in thousands (unaudited)</i>	Six months ended	
	June 30, 2011	June 30, 2010
Earnings before interest, taxes and amortization	\$5,405	\$5,241
Changes in working capital items	(4,385)	(5,231)
Net interest expense	(1,472)	(1,700)
Other	23	16
Cash flow from operations	\$(429)	\$(1,674)

The following table summarizes the use of cash for the period:

<i>in thousands (unaudited)</i>	Six months ended	
	June 30, 2011	June 30, 2010
Cash used in:		
Operations	\$429	\$1,674
Financing	821	944
Investing	4,577	1,451
Foreign currency change	22	-
Dividend paid	400	-
Decrease in cash position	\$6,249	\$4,069

During the period, the Company also used \$820,000 to make scheduled debt principal and lease repayments, and \$4.5 million on capital expenditures. Of the total incurred on capital costs, \$3.8 million related to the purchase of Ice Sports Romeoville and the remainder was used for structural improvements, energy efficient lamp replacements, and new plant equipment.

In addition, the Company made two quarterly dividend payments in January and April 2011 to common shareholders totalling \$400,000. On July 15, 2011, a quarterly dividend payment was also made to shareholders of record on June 30, 2011 at \$0.015 per share.

Share Capital

Shares issued and outstanding at March 31, 2011 and December 31, 2010	<u>13,337,448</u>
Weighted average number of shares outstanding	<u>13,337,448</u>

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

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.

As at June 30, 2011, 690,750 stock appreciation rights were outstanding with a weighted average exercise price of \$1.81. Approximately 76,000 rights were vested and exercisable. During the period, stock-based compensation expense of \$77,000 (2010 – \$49,000) related to the SARs plan was recorded.

Transactions with Related Parties

Canlan's controlling shareholder, Bartrac Investments Ltd., owns approximately 10 million shares of the Company, or 75% of the outstanding shares.

There were no transactions with Bartrac Investments Ltd. or its subsidiaries during the period.

Financial Instruments

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

- 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 June 30, 2011, the fair value was \$81,000 (December 31, 2010 - \$227,000). Changes in the fair value of the instrument are recognized in net earnings. For the six months ended June 30, 2011, a gain of \$146,000 was recognized as part of finance income.
- 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 June 30, 2011. The Company had no "other comprehensive income or loss" transactions during the six months ended June 30, 2011 and no opening or closing balances for accumulated other comprehensive income or loss.

Critical Accounting Policies and Estimates

Management makes certain estimates based upon certain assumptions in order to prepare its consolidated financial statements in accordance with IFRS. Such estimates and assumptions include revenue recognition, the valuation of accounts receivable, recoverability of long-lived assets, estimation of useful lives of property, plant and equipment, stock-based compensation expense, and the measurement of income tax assets, and liabilities. Actual results may differ from our estimates and assumptions.

Revenue recognition

Revenue from ice rink operations and partnership solutions 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.

Accounts receivable

In determining the valuation of accounts receivable and the allowance for doubtful accounts, the Company relies on current customer information, payment history and trends.

Recoverability of long-lived assets

The recoverability of recreation properties is based on future discounted cash flows expected to be generated from such assets. When appropriate, third-party appraisals will be used to determine the valuation of recreation properties.

Useful lives of property, plant and equipment

The estimation of useful lives of the various classes of property plant and equipment is based upon history and experience of the assets in each class.

Accounting for stock-based compensation

The fair value of our stock appreciation rights is based on certain estimates used in applying the Black-Scholes pricing model. The rights are cash-settled and are classified as a liability and re-measured to fair value at each reporting date by recognizing compensation cost over the life of the rights based on the vesting terms of each tranche of rights.

Deferred Income Tax

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

Changes to Accounting policies related to the IFRS conversion

From January 1, 2011, IFRS are effective for both our interim and annual financial statements. The conversion is disclosed in Note 16 to our June 30, 2011 interim financial statements.

These interim financial statements have been prepared in accordance with the accounting policies we expect to adopt in our December 31, 2011 consolidated annual financial statements. The accounting policies stated therein are based on IFRS and IFRS Interpretations (IFRIC's) that we expect to be applicable at that time.

The quantitative impact of the transition on our net earnings for the comparative three months ended June 30, 2010 was an increase of \$257,000 in EBITDA and an increase in net earnings of \$3,000. This resulted mainly from the reclassification of finance income and costs, a decrease to stock-based compensation expense, combined with an increase in depreciation and deferred tax expense. In addition opening shareholders' equity at January 1, 2010, was reduced by \$4.1 million. Other reclassifications and changes in financial reporting on the transition are detailed in note 16 of the interim financial statements.

Other than the change of framework from previous Canadian GAAP to IFRS, there have been no accounting policy changes implemented during the period.

Reconciliation of Canadian GAAP to IFRS

Note 16 of the consolidated interim financial statements, provides detailed reconciliations between the Company's Canadian GAAP (CGAAP) and IFRS financial statements. The reconciliations have been prepared for the consolidated balance sheets as at:

- January 1, 2010
- June 30, 2010
- December 31, 2010

In addition, the reconciliations have been prepared for the consolidated statements of earnings for the three, six and 12 months ended June 30, 2010 and December 31, 2010.

In preparing our IFRS opening balance sheet at January 1, 2010, we applied the guidance under IFRS 1 *First Time Adoption of IFRS*. An explanation of how the transition from CGAAP to IFRS has affected the Company's opening financial position is as follows:

Property, plant and equipment (PP&E)

(a) Measurement and Valuation

Under CGAAP, 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 has elected 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 CGAAP, 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 recreation facility for impairment accordingly. Where a property's carrying amount under previous CGAAP 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.

(d) Start-up costs

Under previous CGAAP, 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 CGAAP, 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 \$1.3 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.

Disclosure Controls and Procedures

The conversion to IFRS from CGAAP impacts the way the Company presents its financial results and related disclosures. With oversight from the Company's Board of Directors, management has evaluated the impact of the conversion on its accounting and financial reporting systems and has updated the systems to enable the reporting of historical CGAAP information related to its initial IFRS adoption and for future reporting periods. The Company's internal control processes have not required significant change as a result of the transition to IFRS.

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 June 30, 2011.

Our management has evaluated, under the supervision and with the participation of our CEO and CFO, the design and effectiveness of the Company's disclosure controls and procedures as at the period ended June 30, 2011. 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 June 30, 2011.

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 recreational ice sports 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 59% of total revenues and virtually all of the operating profit being generated in the first and last quarters. This seasonality of operations impacts reported quarterly earnings. The operating 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:

- Hockey 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 major markets, 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.

Payment of Cash Dividends

On June 15, 2011 we declared a quarterly dividend of \$0.015 per outstanding common share that was paid out on July 15, 2011 to shareholders of record on June 30, 2011.

Any decision to continue paying the quarterly dividend is at the discretion of our Board of Directors, after taking into consideration our operating results, financial condition, cash requirements and restrictions related to our financing arrangements. We may be unable or may chose not to continue to declare and pay quarterly dividends, even if the necessary financial conditions are met and we have sufficient cash to do so.

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 facilities. 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

The Company has fixed the interest rate on 87% of its mortgage debt, which totals \$40.6 million. The remainder of our mortgage debt, totalling \$5.4 million, is subject to variable interest rates. For every 1% change in the prime rate, interest expense will change by \$54,000 per annum.

- 62% of the debt, currently \$27 million, matures on July 15, 2018. The estimated balance on maturity is \$16.5 million.
- 38% of our debt, currently \$16.8 million, matures on September 30, 2014. The estimated balance on maturity is \$13 million.

On maturity, 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 maintains good relationships with its lenders through regular communications' and reporting.

Outlook

Through the first six months of 2011, careful cost controls and pricing have enabled us to meet our earnings targets and exceed prior year results. Currently, the Company continues to be focused on maximizing sales for all summer programs and delivering a high level of customer service in all our camps, leagues and tournaments. Management is also ensuring that marketing plans for the upcoming fall and winter season is properly executed so that targets for the remainder of the year can be achieved. So far, the registrations for the remainder of our summer programs have been strong and ASHL registrations for the 2011/2012 season are in line with expectations.

The addition of Ice Sports Romeoville is also a new and exciting venture and ramp-up operations have gone well and according to plan. Since assuming this facility's operations, management has been focused on properly staffing the business, making necessary enhancements to the facility, and begin generating the revenue levels that we believe this facility is capable of.

During the second quarter we listed our Regina property for sale and hope to conclude a transaction this summer. Proceeds from the sale will be primarily used to finance new acquisitions.

Michael F. Gellard
Senior Vice President
Chief Financial Officer