



CANLAN ICE SPORTS CORP.

# Q2 REPORT



Three months & Six months ended  
June 30, 2007



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

**For the Three Months and Six Months Ended June 30, 2007  
As of August 7, 2007**

## **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, 2007 and the consolidated operating results for the three months and six months ended June 30, 2007 compared to the three and six months ended June 30, 2006. This discussion should be read in conjunction with our unaudited consolidated financial statements for the period ended June 30, 2007, the accompanying notes, and our audited consolidated financial statements for the years ended December 31, 2006 and December 31, 2005. The results reported herein have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are presented in Canadian dollars.

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

### ***Forward Looking Statements***

Certain statements in this MD&A may constitute "forward looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this MD&A, such statements may use such words as "may", "will", "expect", "believe", "plan" and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this MD&A. These forward looking statements involve a number of risks and uncertainties. Some of the factors that could cause actual results to differ materially from those expressed in or underlying such forward looking statements are the effects of, as well as changes in: international, national and local business and economic conditions; political or economic instability in the Company's markets; competition; legislation and governmental regulation; and accounting policies and practices. The foregoing list of factors is not exhaustive.

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

The date of this MD&A is August 14, 2007.

## Overview of the Company

Canlan Ice Sports Corp. is a leading operator of recreational and leisure facilities. 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 62 full-sized ice sheets, 2 indoor soccer fields and 3 curling surfaces. The Company owns 11 of these facilities, manages 7 on behalf of third party owners and operates 4 others under long-term lease arrangements.

Canlan is a publicly traded Canadian Company with its shares listed on the Toronto Stock Exchange using the trading symbol **ISE**. The Company's head office is located in Burnaby, B.C. at Burnaby 8 Rinks, the Company's largest facility. There are 267 million shares outstanding that have recently traded in the \$0.085 to \$0.095 range. The Company has not issued any shares since November 2004.

The Company derives revenue from five primary sources: The operation of in-house programs including the sale of ice and field time to third parties ("facility operations"), food and beverage operations, sports stores, management & consulting, and other. Other revenue includes advertising, space rental and sponsorship.

Revenue from facility operations includes contract rental of ice-time, team registration fees for in-house leagues, tournament registration fees, registration fees for programs and youth camps. Ice revenue accounted for approximately 70% or \$22.1 million of the Corporation's total revenues during the first six months of 2007, compared to 69% or \$18.1 million in 2006 respectively.

The Company operates restaurants, sports bars, and concession outlets within its ice rink facilities that generated approximately 20% or \$6.5 million (2006 – 21% or \$5.6 million) of total revenue during the period. The Company has developed strategic marketing partnerships with national suppliers of food and beverage products. Sponsorship and loyalty programs are also an integral part of Canlan's product offering to adult hockey league members.

Canlan operates ten sports stores and rents space to third-party operators under long term leases in another five facilities. Sports stores generated about 4% or \$1.1 million of total revenue from January to June 2007, similar to 2006.

Management and consulting services revenue is comprised of fees for managing ice rink facilities on behalf of owners and one time consulting engagements. This division earned consulting and management fee revenue totaling \$202,000, which represents 1% of total revenue, compared to \$189,000 (also 1% of total revenue) during the same period last year. Currently the Company is engaged in seven active management contracts.

Other sources of revenue totaled \$1.5 million or 5% of total revenue for the six months ended June 30, 2007 compared to \$1.5 million or 5% for same period of 2006. Major components of other revenue include space rental, tournament, vending, and sponsorship.

## **Review of Operations – Three months ended June 30, 2007**

### **Comparative Results**

On August 1, 2006 the Company purchased a six-pad recreational ice facility in Toronto, Ontario, named Ice Sports York. The facility contains a full service restaurant, a sports store and conference space for banquets and meetings and began operations under Canlan on August 1, 2006. Where appropriate, this analysis will discuss financial results on a same store basis to compare results before the contribution from Ice Sports York.

Total revenue of \$13.1 million increased by \$1.8 million or 15.7% compared to 2006. On a same store basis, revenue increased by 4.6% or \$516,000.

The improvement in same store revenue was principally due to continued growth in the Company's Adult Safe Hockey League ("ASHL") and to increased registrations in Canlan's youth leagues that began in the spring and continue throughout the summer. The ASHL is Canlan's most successful program and the combination of increased pricing and registrations in both the winter and summer leagues resulted in strong revenue growth in most Canadian markets. Approximately 53,000 players are now registered in winter and summer leagues. Same store ASHL revenue increased by \$424,000 while revenue from youth leagues increased by \$143,000. Ice Sports York contributed an additional \$313,000 in ASHL revenue during the second quarter.

Same store food & beverage revenue of \$2.6 million remained steady from the prior year while Ice Sports York added another \$384,000 of food & beverage revenue during the quarter.

Total direct operating expense of \$11.8 million increased by \$1.6 million or 15.2% compared to 2006. On a same store basis, ice rink operating expense was \$10.4 million, which represents an increase of \$189,000 or 1.8%. This increase was principally due to added costs required to service the higher demand in Canlan's adult hockey leagues. Total operating costs from Ice Sports York for the second quarter was \$1.4 million.

Corporate general and administration costs of \$936,000 increased by \$232,000 or 33% compared to 2006. This was principally due to higher labour costs resulting from added capacity required to service rink operations and accounting for stock-based compensation costs. Included in corporate general and administration are costs related to management support services to all Ice Sports facilities, including accounting, marketing, IT support, and human resources in addition to all costs related to the consulting and management services division. The costs related to maintaining our public listing are also included in corporate administration expenses.

Overall, EBITA of \$384,000 is steady with the prior year. On a same store basis, however, EBITA increased by \$95,000 or 24% as Ice Sports York had negative operating earnings of \$101,000 during the second quarter, as planned.

Interest on ice rink debt of \$950,000 increased by \$218,000 or 29.8% compared to 2006 due to the additional debt that resulted from the purchase of Ice Sports York.

After recording a future income tax recovery of \$362,000, net loss for the quarter was \$1.4 million compared to \$1.3 million a year ago.

## **Contract Management and Consulting Services**

The Company operates a management services division to capitalize on our industry expertise and operating knowledge. The Division offers various services to investors and municipalities, from one time consulting engagements to long-term management contracts.

The Company is managing seven facilities on behalf of municipalities and private investors. Three of these contracts are located in British Columbia; the remaining four contracts are located in Alberta, Ontario, New Brunswick and Michigan, USA. The length of the contracts ranges from 3 to 7 years with various terms.

During the second quarter, total revenue generated from management contracts and consulting engagements of \$88,000 increased by \$11,000 or 14.3% compared to 2006.

## **Review of Operations – Six months ended June 30, 2007**

Total revenues of \$31.5 million increased by \$5.1 million or 19.4% compared to the prior year. Same store revenues of \$27.9 million increased by \$1.5 million or 5.8%, principally due to growth in the Company's various hockey leagues, soccer leagues, instructional programs and Canlan's in-house tournaments. Ice Sports York added another \$3.6 million of sales in the six months of 2007, as planned. Revenue from consulting and management services of \$202,000 increased by \$13,000 or 6.9% compared to 2006.

Same store operating expenses of \$21.4 million increased by \$856,000 or 4.2%. The increase was mainly due to added costs required to meet additional volume and higher hydro electric expense. Ice Sports York added an additional \$2.8 million of operating costs, slightly lower than planned, resulting in total operating expenses of \$24.2 million compared to \$20.1 million a year ago, an increase of \$3.7 million or 17.9%.

Corporate general and administration expense of \$1.8 million increased by \$457,000 or 33% compared to 2006. The increase is principally due to increased labour costs and accounting for stock-based compensation expense.

EBITA of \$5.4 million increased by \$990,000 or 22.3% from the prior year. Same store EBITA of \$4.7 million increased by \$227,000 or 5.1% from 2006.

Interest expense increased by \$353,000 or 20.4% compared to 2006 due to increased debt incurred to purchase Ice Sports York. After accounting for interest, amortization, and tax expense, net income was \$914,000 compared to \$320,000 a year ago.

## Earnings by Quarter

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

	2007		2006				2005	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Gross revenue	\$13,096	\$18,396	\$18,013	\$10,845	\$11,319	\$15,054	\$14,611	\$9,248
Operating costs	(11,776)	(12,454)	(12,596)	(9,953)	(10,225)	(10,333)	(9,922)	(8,659)
	1,320	5,942	5,417	892	1,094	4,721	4,689	589
General & administration	(936)	(898)	(703)	(695)	(704)	(673)	(632)	(629)
<b>EBITA</b>	<b>384</b>	<b>5,044</b>	<b>4,714</b>	<b>197</b>	<b>390</b>	<b>4,048</b>	<b>4,057</b>	<b>(40)</b>
Interest	(1,059)	(1,019)	(1,101)	(1,127)	(888)	(839)	(1,003)	(894)
Amortization	(1,090)	(1,073)	(1,041)	(995)	(925)	(927)	(1,002)	(889)
Other	(23)	6	8	(2)	374	-	(3)	31
<b>Net earnings (loss) before taxes and other</b>	<b>(1,788)</b>	<b>2,958</b>	<b>2,580</b>	<b>(1,927)</b>	<b>(1,770)</b>	<b>2,282</b>	<b>2,049</b>	<b>(1,792)</b>
Income taxes and other	362	(618)	(264)	644	423	(614)	(349)	471
<b>Net earnings (loss)</b>	<b>(\$1,426)</b>	<b>\$2,340</b>	<b>\$2,316</b>	<b>(\$1,283)</b>	<b>(\$1,347)</b>	<b>\$1,668</b>	<b>\$1,700</b>	<b>(\$1,321)</b>
<b>Earnings (loss) per share</b>	<b>(\$0.01)</b>	<b>\$0.01</b>	<b>\$0.01</b>	<b>(\$0.01)</b>	<b>(\$0.01)</b>	<b>\$0.01</b>	<b>\$0.01</b>	<b>(\$0.01)</b>

The table above shows the seasonality of the Company's business. The Company concentrates on increasing revenues during the spring and summer months through marketing of youth leagues and programs, and youth camps, in addition to growing the summer Adult Safe Hockey League.

## Review of Assets

The table below summarizes the Company's asset base.

<i>in thousands</i>	June 30, 2007	December 31, 2006	June 30, 2006
Ice rink facilities	\$99,900	\$100,464	\$89,760
Accounts receivable	2,514	1,822	2,253
Prepaid expenses and other assets	1,666	915	530
Inventory	1,285	1,186	1,145
Cash	550	4,820	1,519
Land held for ice rink development	856	856	856
Future income taxes	1,884	2,140	1,757
	<b>\$108,655</b>	<b>\$112,203</b>	<b>\$97,820</b>

During the first six months of 2007, the Company added \$1.0 million of capital expenditures to renovate and improve ice rink facilities, \$357,000 of which was incurred by Ice Sports York. These expenditures, together with scheduled amortization of assets resulted in a slight decrease in rink facility fixed assets compared to the most recent year end. See "Liquidity and Capital Resources" below for discussion on uses of cash during the period.

Prepaid expenses consist of costs paid in advance that will be expensed in the subsequent 12 months, such as insurance and property taxes. Other assets include deferred financing

charges that are being amortized over the term of the related debt, and corporate office furniture and equipment.

## Review of Liabilities

The table below summarizes the Company's capital structure:

<i>in thousands</i>	June 30, 2006	December 31, 2006	June 30, 2006
Mortgages payable	\$51,840	\$53,195	\$47,470
Deferred revenue and customer deposits	6,202	10,430	4,314
Accounts payable	4,880	5,250	4,236
Preferred shares	3,650	3,650	-
Note payable	1,250	-	3,250
Capital leases	1,113	872	778
	<b>68,935</b>	73,397	60,048
Shareholders' equity	<b>39,720</b>	38,806	37,772
	<b>\$108,655</b>	\$112,203	\$97,820

Total interest bearing debt, which includes mortgages payable and capital leases totaled \$53.2 million as at June 30, 2007, a net decrease of \$900,000 from December 31, 2006. This net decrease is a result of repayments made and additional capital leases used to finance the purchase of computer and ice plant equipment.

Related to the purchase of Ice Sports York, the Company issued preferred shares from a subsidiary, raising \$3.7 million of additional funds to complete the purchase. The preferred shares carry a cumulative annual dividend of 12% payable quarterly, and will be redeemed over three years, starting on July 31, 2007. In accordance with accounting standards these preferred shares are classified as debt and the related dividend is recorded as interest expense.

As at June 30, 2007, the Company's balance sheet indicates a working capital deficiency of \$9.1 million (December 31, 2006 - \$9.4 million). Deferred revenue and customer deposits of \$6.2 million makes up a large portion of this balance as customer payments for hockey leagues and programs have been received in advance at this time of year.

## Liquidity and Capital Resources

The Company's debt to equity ratio was 1.74:1 at the end of the second quarter, compared to 1.89:1 at December 31, 2006. The ratio has improved due to the decrease in the deferred revenue and customer deposits balance as discussed above, coupled with the net income earned during the first two quarters.

During the six months ended June 30, 2007, the Company had negative cash flow from operations of \$2.9 million, mainly due to the change in deferred revenue and customer deposits and the prepayment of insurance and property taxes. This cash deficiency was financed with cash on hand at year end and an interim loan of \$1.25 million from an affiliate of the Company's controlling shareholder.

The Company also used \$1.4 million to make scheduled debt repayments and \$1.0 million to purchase capital assets. To June 30, 2007, significant capital expenditures included: 1) Ice Sports York facility renovation program (\$443,000); 2) Burnaby 8 Rinks refurbishment of one ice-pad (\$65,000); and 3) Les 4 Glaces replacement of refrigeration equipment (\$100,000).

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

<i>in thousands</i>	<b>Six months ended</b>	
	<b>June 30, 2007</b>	June 30, 2006
Earnings before Interest, Taxes and Amortization (EBITA)	<b>\$5,429</b>	\$4,439
Changes in working capital items	<b>(6,197)</b>	(4,881)
Interest expense	<b>(2,080)</b>	(1,727)
Other	<b>17</b>	15
Cash flow from operations	<b>(\$2,865)</b>	(\$2,154)

The Company did not issue any shares during the quarter.

On April 1, 2006 the Company's outstanding stock options were surrendered by the option holders, cancelled, and replaced by a stock appreciation rights (SAR) plan. The SAR 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 SAR's granted vest in equal installments over a three year period and expire five years from the grant date.

The SAR plan resulted in the Company issuing 14.4 million stock appreciation rights at an exercise price of \$0.06. During the six months of the year, the Company recorded \$131,000 as compensation expense related to vested stock appreciation rights (one-third of total rights issued) outstanding at June 30, 2007.

## **Transactions with Related Parties**

Canlan's controlling shareholder, Bartrac Investments Ltd., owns 201 million shares of the Company, or 75% of the outstanding shares.

During the first six months of 2007, the Company paid \$217,200 of preferred share dividends (see "Review of Liabilities" above) and \$169,000 of interest and loan guarantee fees (2006 - \$251,000) to an affiliate of the Company's controlling shareholder.

## **Risk Management**

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

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

### **Seasonality of operations**

The Company's business cycle is highly seasonal with 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.
- Seasonal financing is secured.

### **Competition**

The ice rink industry is highly competitive and Canlan competes with other private operators in its three major markets, B.C., Ontario and Quebec, as well as Municipal Governments that have different mandates and usually operate with significant losses. Other private operators may have more resources and less debt than Canlan, and municipal operators can operate at a loss for an indefinite period without the same negative consequences such losses would have on private companies.

Mitigating factors and strategies:

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

### **Insurance**

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

A large part of our revenue is achieved through the development and organization of adult hockey leagues that play in our owned and managed facilities. Due to the nature of the sport, injuries can occur. The Company purchases liability and accident insurance, the cost of which is dependant upon the history of the number of claims and the quantum of such claims. There

is always a risk that the cost of acquiring sufficient insurance to cover any such injury claims will become prohibitive or that such insurance will become unavailable.

Mitigating factors and strategies:

- Canlan maintains its facilities to high standards and continually monitors league activities and enforces a strict set of rules.
- Canlan 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 77% of its mortgage debt, which totals \$40.1 million. The remainder of our mortgage debt, totaling \$11.8 million, is subject to variable interest rates.

The current loan facility matures in September 2008; therefore, we could be susceptible to interest rate fluctuations leading up to maturity. There is also a risk that the loans will not be renewed by our current financial institution and the Company will need to seek out alternative sources of financing in 2008. 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 carefully monitors interest rate movements.
- The Company will commence renewal negotiations well in advance of maturity.

### **Changes in Accounting Policies**

New accounting standards came into effect for fiscal years beginning on or after October 1, 2006 for recognition and measurement of financial instruments and disclosure of comprehensive income. The Company has applied these standards beginning January 1, 2007, which have not resulted in a material impact on the financial statements.

During 2006, a wholly owned subsidiary of the Company issued preferred shares as part of the financing of Ice Sports York acquisition. In accordance with CICA handbook section 3861 "Financial Instruments – Disclosure", the preferred shares are included with liabilities and the related dividends are recorded as interest expense.

### **Critical Accounting Policies and Estimates**

Canlan's critical accounting policies are described in Note 2 to the interim consolidated financial statements. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses and disclosure of contingent liabilities.

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

### **Useful lives of depreciable assets**

Ice rink properties and administrative assets, such as furniture, computer equipment and software are amortized on a straight-line basis over the estimated useful life of the asset. Over 90% of our total assets are comprised of our ice rink properties. The selection method of amortization and length of the amortization period could have a material impact on amortization expense and the net book value of our assets. Assets may become obsolete or require replacement before the end of their estimated useful lives, in which case any remaining unamortized costs would be written off.

### **Revenue recognition**

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

### **Valuation of future income tax assets**

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

### **Disclosure Controls and Procedures**

We 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 and Chief Financial Officer are required to certify that they have assessed the effectiveness of our disclosure controls and procedures as at June 30, 2007.

We have performed an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures at June 30, 2007. Based on that evaluation, we concluded that our disclosure controls and procedures were effective as of that date.

## **Outlook**

Results for the first half of the year were on plan and healthy revenue growth was experienced in most major markets. Demand for the Company's adult hockey leagues continues to be strong in winter and summer, and registrations for the 2007/2008 winter season are already well underway in most of our markets. Much focus has been placed on growing the league through expanding the market base by adapting to changing demographics.

Registrations for youth programs have also been very positive throughout the summer and camps taking place throughout the third quarter are being filled quickly. With a variety of product offerings including camps, youth leagues and youth tournaments, the youth programs are expected to be a major contributor to revenue growth.

Aside from driving revenue growth, the Company will, during the second half of 2007, focus on cost controls to improve margins, and ultimately, meet financial targets that management set out in its annual operating plan.

Michael F. Gellard  
Senior Vice President, Finance and  
Chief Financial Officer



**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, 2007 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.

Consolidated Balance Sheets  
(in thousands of Canadian dollars)

	June 30 2007 (unaudited)	December 31 2006 (audited)	June 30 2006 (unaudited)
<b>Assets</b>			
<b>Current assets:</b>			
Cash	\$ 550	\$4,820	\$530
Accounts receivable	2,514	1,822	2,253
Inventory	1,285	1,186	1,145
Future income taxes	1,884	2,140	1,757
Prepaid expenses	1,171	362	1,001
	<b>7,404</b>	<b>10,330</b>	<b>6,686</b>
<b>Properties:</b>			
Ice rinks (note 3)	99,900	100,464	89,760
Held for ice rink development	856	856	856
	<b>100,756</b>	<b>101,320</b>	<b>90,616</b>
Other assets	495	553	518
	<b>\$108,655</b>	<b>\$112,203</b>	<b>\$97,820</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued liabilities	\$4,880	\$5,250	\$4,236
Deferred revenue and customer deposits	6,202	10,430	4,314
Current portion of:			
Obligations under capital leases	364	288	222
Debt on ice rinks (note 4)	2,829	2,747	2,387
Preferred shares (note 5)	1,000	1,000	-
Note payable (note 6)	1,250	-	3,250
	<b>16,525</b>	<b>19,715</b>	<b>14,409</b>
<b>Long-term liabilities:</b>			
Obligations under capital leases	749	584	556
Debt on ice rinks (note 4)	49,011	50,448	45,083
Preferred shares (note 5)	2,650	2,650	-
	<b>52,410</b>	<b>53,682</b>	<b>45,639</b>
	<b>68,935</b>	<b>73,397</b>	<b>60,048</b>
<b>Shareholders' equity:</b>			
Share capital (note 7)	63,109	63,109	63,109
Contributed surplus	543	543	543
Deficit	(23,932)	(24,846)	(25,880)
	<b>39,720</b>	<b>38,806</b>	<b>37,772</b>
	<b>\$108,655</b>	<b>\$112,203</b>	<b>\$97,820</b>

Nature of business and future operations (note 1)  
See accompanying notes to consolidated financial statements

[signed] **“W. Grant Ballantyne”**  
Director

[signed] **“Frank D. Barker”**  
Director

# CANLAN ICE SPORTS CORP.

Consolidated Statements of Operations and Deficit (unaudited)  
(in thousands of Canadian dollars except earnings per common share)

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
<b>Revenue:</b>				
Ice rinks (notes 10 & 11)	\$13,096	\$11,319	\$31,492	\$26,374
<b>Expenses:</b>				
Ice rinks	11,776	10,225	24,229	20,558
Earnings from operations	1,320	1,094	7,263	5,816
General and administration expenses	936	704	1,834	1,377
<b>Earnings before the undernoted</b>	<b>384</b>	390	<b>5,429</b>	4,439
<b>Other expenses:</b>				
Interest on debt on ice rinks	950	732	1,866	1,446
Other interest	109	156	214	281
Loss on foreign exchange	23	363	17	363
Amortization	1,090	925	2,162	1,852
Gain on sale of capital assets	-	(16)	-	(16)
	2,172	2,160	4,259	3,926
Earnings (loss) before taxes	(1,788)	(1,770)	1,170	513
Income tax (expense) recovery:				
Current	-	53	-	-
Future	362	370	(256)	(193)
	362	423	(256)	(193)
<b>Net earnings (loss)</b>	<b>(1,426)</b>	(1,347)	<b>914</b>	320
Deficit, beginning of period	(22,506)	(24,533)	(24,846)	(26,200)
<b>Deficit, end of period</b>	<b>\$ (23,932)</b>	\$ (25,880)	<b>\$ (23,932)</b>	\$ (25,880)
Basic earnings (loss) per share	\$ (0.01)	\$ (0.01)	\$ 0.00	\$ 0.00
Fully diluted earnings (loss) per share	\$ (0.01)	\$ (0.01)	\$ 0.00	\$ 0.00
Basic and diluted weighted average number of shares outstanding (in thousands) (note 7)	266,747	266,747	266,747	266,747

See accompanying notes to consolidated financial statements

# CANLAN ICE SPORTS CORP.

Consolidated Statements of Cash Flows (unaudited)  
(in thousands of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
<b>Cash provided by (used in):</b>				
<b>Operations:</b>				
Earnings (loss) from operations	\$(1,426)	\$(1,347)	\$914	\$320
Items not involving cash:				
Amortization	1,090	925	2,162	1,852
Gain on sale of capital assets	-	(16)	-	(16)
Foreign exchange loss on sale of capital assets	-	378	-	378
Future income tax	(362)	(368)	256	193
Changes in non-cash working:				
Accounts receivable	57	(631)	(693)	(826)
Prepaid expenses	340	157	(808)	(488)
Accounts payable and accrued liabilities	(10)	(954)	(369)	21
Deferred revenue and customer deposits	706	(301)	(4,229)	(3,493)
Inventory	(133)	(9)	(98)	(95)
	262	(2,166)	(2,865)	(2,154)
<b>Investing activities:</b>				
Expenditures on ice rink properties	(333)	(98)	(1,005)	(348)
Proceeds from sale of ice rink properties	-	1,155	-	1,155
Other assets	(62)	(11)	(98)	(18)
	(395)	1,046	(1,103)	789
<b>Financing activities:</b>				
Increase (repayment) on line of credit	-	-	-	-
Repayment of debt on ice rinks	(682)	(1,066)	(1,356)	(1,675)
Repayment of obligations under capital lease	(100)	(36)	(196)	(102)
Increase in note payable	1,250	1,500	1,250	2,500
	468	398	(302)	723
Increase (decrease) in cash	335	(722)	(4,270)	(642)
Cash position, beginning of period	215	1,252	4,820	1,172
<b>Cash position, end of period</b>	<b>\$550</b>	<b>\$530</b>	<b>\$550</b>	<b>\$530</b>
<b>Cash flows include the following element:</b>				
Interest paid	\$1,061	\$888	\$2,080	\$1,727
Taxes paid	3	-	3	-
<b>Non-cash transactions:</b>				
Capital lease additions	\$170	\$349	\$437	\$349

See accompanying notes to consolidated financial statements

# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements (unaudited)  
Six months ended June 31, 2007

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## 1. Nature of business and future operations:

Canlan Ice Sports Corp. (the "Company") is engaged in the acquisition, development and operation of recreational and leisure facilities across North America.

These financial statements are prepared on the basis that the Company will continue to operate throughout its next fiscal period subsequent to June 30, 2007 as a going concern.

The Company is dependent upon the continued support of its controlling shareholder in providing seasonal financing and, ultimately, upon its ability to generate continuing profitable operations.

Management continues to review the Company's revenue generating activities and its expenditure levels to increase net cash flows. Management believes that these actions, in conjunction with the expected revenue growth and continued expansion of ice rink management and consulting activities, make the use of the going concern basis appropriate; however, it is not possible at this time to predict the outcome of these matters. If the going concern basis is not appropriate, adjustments would be necessary to the carrying amounts and/or classification of assets, liabilities and expenses in these consolidated financial statements, and the adjustments could be material.

## 2. Significant accounting policies:

### General

These financial statements are prepared in accordance with Canadian generally accepted accounting principles for the preparation of interim financial statements. Certain information and note disclosures normally included in the Company's annual consolidated financial statements have not been included. These interim financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2006. The Company's operations are seasonal and revenues tend to be highest during the first and fourth quarters when ice sports are much more active. Therefore, these interim consolidated financial statements are not necessarily indicative of the results to be expected for the year ending December 31, 2007.

The accounting policies and methods followed in these interim consolidated financial statements are consistent with those of the most recent annual consolidated financial statements except (h).

#### a) Principles of consolidation:

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

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

# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements (unaudited)  
Six months ended June 30, 2007

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(b) Inventories:

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

(c) Long-lived assets:

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

A two-step process is used to assess the impairment of long-lived assets held for use, with the first step determining whether impairment needs to be recognized and the second step measuring the amount of the impairment. Impairment losses are recognized when the carrying amount of long-lived assets exceeds the sum of the undiscounted cash flows expected to result from their use and eventual disposition. The impairment loss is determined as the amount by which the long-lived assets' carrying amount exceeds its fair value. Application of this process had no impact on the Company's financial position, results of operations or cash flows.

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

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

(d) Revenue recognition:

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

(e) Management contracts:

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

(f) Other assets:

Included in other assets are deferred financing charges which are amortized over the minimum term of the related debt

# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements (unaudited)  
Six months ended June 30, 2007

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(g) Foreign currency:

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

(h) Financial Instruments:

On January 1, 2007, the Company adopted The Canadian Institute of Chartered Accountants Handbook Section 1530, Comprehensive Income, Section 3251, Equity, Section 3855, Financial Instruments – Recognition and Measurement, Section 3861, Financial Instruments – Disclosure and Presentation and Section 3865, Hedges. Section 1530 establishes standards for reporting and presenting comprehensive income, which represents the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with Canadian GAAP.

Section 3861 establishes standards for disclosure and presentation of financial instruments and non-financial derivatives. The preferred shares issued by a wholly owned subsidiary of the Company are presented as liabilities and dividends accrued are included in interest expense. Section 3865 describes when and how hedge accounting can be applied as well as disclosure requirements. Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and the amount at which these items should be recorded. Under the new standard, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale or other financial liabilities. All financial instruments are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized costs. Subsequent measurement and the accounting for changes in fair value will depend on their initial classification.

Upon adoption of these new standards, the Company designated its cash, cash equivalents, restricted cash and short-term investments as held-for-trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable, accrued liabilities and note payable, are classified as other financial liabilities. The Company had neither available for sale, nor held-to-maturity instruments during the three and six months ended June 30, 2007. The Company had no “other comprehensive income or loss” transactions during the three and six months ended June 30, 2007 and no opening or closing balances for accumulated other comprehensive income or loss.

The adoption of these standards did not result in any material impact on the Company's financial statements.

# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements (unaudited)  
Six months ended June 30, 2007

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(i) Earnings per share:

Earnings per share have been calculated using the weighted average number of common shares outstanding.

(j) Stock-based compensation plan:

Stock option plans are accounted for using the fair-value based method of accounting for stock options, with a resulting compensation expense being charged to operations and an increase to contributed surplus.

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

(k) Measurement uncertainty:

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

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

(l) Income taxes:

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

# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements (unaudited)  
(Amounts in tables are in thousands of Canadian dollars)  
Six months ended June 30, 2007

## 3. Properties - Ice rinks:

<b>June 30, 2007</b>	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net book value</b>
Ice rinks:			
Land	\$ 14,616	\$ -	\$ 14,616
Buildings	105,685	24,968	80,717
Machinery and equipment	5,988	3,369	2,619
Computers, furniture and fixtures	4,129	2,821	1,308
Ice resurfacing equipment	2,391	1,751	640
	<b>\$ 132,809</b>	<b>\$ 32,909</b>	<b>\$ 99,900</b>

<b>December 31, 2006</b>	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net book value</b>
Ice rinks:			
Land	\$ 14,616	\$ -	\$ 14,616
Buildings	105,547	23,579	81,968
Machinery and equipment	5,317	3,130	2,187
Computers, furniture and fixtures	3,714	2,598	1,116
Ice resurfacing equipment	2,220	1,643	577
	<b>\$ 131,414</b>	<b>\$ 30,950</b>	<b>\$ 100,464</b>

On August 1, 2006, the Company purchased an ice rink facility in Toronto, Ontario. The purchase price was \$11,250,000 and the assets purchased have been recorded in the appropriate classes of ice rink properties shown above.

# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements (unaudited)  
(Amounts in tables are in thousands of Canadian dollars)  
Six months ended June 30, 2007

## 4. Debt on ice rinks:

	Maturity dates	Weighted average interest rates	June 30 2007	December 31 2006
Fixed rate	2008	2007 – 5.83% (December 31, 2006 – 5.85%)	\$40,083	\$ 41,296
Variable rate	2008	2007 - prime + 1.00% (December 31, 2006 - prime + 1.00%)	11,757	11,899
			51,840	53,195
Current portion			2,829	2,747
Long-term portion			\$49,011	\$ 50,448

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.

## 5. Preferred shares:

On August 1, 2006, a wholly owned subsidiary of the Company issued 3,650,000 preferred shares to an affiliate of the Company's controlling shareholder for proceeds of \$3,650,000. The preferred shares carry a cumulative annual dividend rate of 12% payable quarterly, and will be redeemed on specific dates as follows:

July 31, 2007	\$ 1,000
July 31, 2008	1,250
July 31, 2009	1,400

In accordance with CICA accounting standards regarding financial statement presentation of certain financial instruments, such as these preferred shares, the net book value of the shares outstanding are presented as a liability in these consolidated financial statements. The proceeds from this issuance were used to purchase an ice rink facility in Toronto, Ontario (note 3).

## 6. Note Payable:

	June 30 2007	December 31 2006
Note payable to an affiliate of the controlling shareholder	\$ 1,250	\$ -

As at June 30, 2007, the note payable to an affiliate of the controlling shareholder is a non-revolving loan facility that bears interest at 10% payable monthly in arrears.

# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements (unaudited)

(Amounts in tables are in thousands of Canadian dollars, except number of shares)

Six months ended June 30, 2007

## 7. Share capital:

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

(a) Authorized:

500,000,000 common shares of no par value

(b) Issued and outstanding:

	Shares	Amount
Balance, December 31, 2006 and June 30, 2007	266,747,663	\$ 63,109

## 8. Stock-based compensation:

On April 1, 2006, the outstanding stock options of the Company's Stock Option plan, granted under the terms of the Canlan Ice Sports Corp. Employee and Director Stock Option Plan (2002), were surrendered and cancelled.

On April 1, 2006, the Company established a Stock Appreciation Rights plan (the "SAR Plan") granted by the Company's Board of Directors subject to terms and conditions of the Canlan Ice Sports Corp. Director and Employee Stock Appreciation Rights Plan (2006). The SAR Plan provides eligible directors and employees of the Company with the right to receive cash equal to the appreciation of the Company's common shares subsequent to the date of grant. The stock appreciation rights granted under the SAR Plan vest in equal installments over a three year period commencing in November 2006. All unexercised stock appreciation rights expire five years from the grant date.

The SAR Plan resulted in the Company issuing 14,400,000 stock appreciation rights at an exercise price of \$0.06. During the period, \$131,000 of expense has been recorded relating to the SAR Plan.

The following table summarizes the Company's Stock Appreciation Rights Plan:

	Number of rights	Weighted average exercise price
Number of rights issued during 2006	14,400,000	\$ 0.06
Forfeited	-	-
Balance, December 31, 2006 and June 30, 2007	14,400,000	\$ 0.06

# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements (unaudited)  
(Amounts in tables are in thousands of Canadian dollars)  
Six months ended June 30, 2007

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## 9. Commitments and contingencies:

- (a) At June 30, 2007, the Company has lease agreements with third parties under the terms of which the Company leases and operates certain ice rink 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 remaining lease terms, at June 30, 2007, range from 7 to 12 years and total minimum lease payments are as follows:

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2007	\$	475
2008		498
2009		500
2010		534
2011		535
Thereafter		3,278

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- (b) On August 1, 2006, the Company purchased an ice rink facility in Toronto, Ontario (note 3). 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. The annual lease cost is \$297,600.
- (c) Various lawsuits involving the Company are pending. The financial impact of these lawsuits is not determinable, but management believes, based on counsels' opinions, that the outcome will not materially affect the Company's financial position.

## 10. Segmented information:

The Company's continuing operations consist of the operation of full-service ice rink facilities primarily in Canada, which constitute a single operating segment. Revenue by services provided are as follows:

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	Six months ended June 30	
	2007	2006
Facility operations	\$ 22,104	\$ 18,052
Restaurant and lounge	6,501	5,578
Sports store	1,143	1,095
Management and consulting fees	202	189
Other	1,542	1,460
	<b>\$ 31,492</b>	<b>\$ 26,374</b>

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

# **CANLAN ICE SPORTS CORP.**

Notes to Consolidated Financial Statements (unaudited)  
(Amounts in tables are in thousands of Canadian dollars)  
Six months ended June 30, 2007

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## **11. Revenues:**

The Company's business cycle is seasonal with approximately 60% of the revenues being generated in the first and fourth quarters of the fiscal year. These are the periods in which the Company's hockey leagues and special programs are most active.

## **12. Related party transactions:**

- (a) During the period, the Company paid \$217,200 of preferred share dividends (note 5) and \$169,000 of interest and loan guarantee fees (2006 - \$251,000) to an affiliate of the Company's controlling shareholder.
- (b) During the period, the Company paid \$29,000 (2006 - \$20,000) in directors' fees.