

Canlan Ice Sports Corp.



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 September 30, 2010 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 dollars)

	September 30 2010 (unaudited)	December 31 2009 (audited)	September 30 2009 (unaudited)
Assets			
Current assets:			
Cash and cash equivalents	\$4,450	\$9,213	\$4,053
Accounts receivable	2,781	1,845	2,458
Inventory	1,048	1,024	1,044
Prepaid expenses	1,327	496	953
Future income taxes (note 11)	3,513	3,326	3,092
	13,119	15,904	11,600
Properties:			
Ice rinks (note 5)	94,772	95,922	96,582
Held for ice rink development	856	856	856
	95,628	96,778	97,438
Future income taxes (note 11)	114	114	1,357
Other assets	450	345	325
	\$109,311	\$113,141	\$110,720
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	\$5,205	\$5,360	\$4,680
Deferred revenue and customer deposits	10,346	12,019	11,124
Financial liability held for trading (note 12)	327	568	645
Current portion of:			
Obligations under capital leases	593	534	546
Debt on ice rinks (note 6)	19,162	2,685	2,687
	35,633	21,166	19,682
Long-term liabilities:			
Obligations under capital leases	1,020	912	1,106
Debt on ice rinks (note 6)	26,252	43,910	45,299
Future income taxes (note 11)	980	980	1,507
	28,252	45,802	47,912
	63,885	66,968	67,594
Shareholders' equity:			
Share capital (note 7)	63,109	63,109	63,109
Contributed surplus	543	543	543
Deficit	(18,226)	(17,479)	(20,526)
	45,426	46,173	43,126
	\$109,311	\$113,141	\$110,720

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"W. Grant Ballantyne" Director

"Joey St-Aubin" Director

CANLAN ICE SPORTS CORP.

Consolidated Statements of Earnings, Comprehensive Income and Deficit (unaudited)
(In thousands of dollars, except for per share amounts)

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Revenue:				
Ice rinks (note 14)	\$ 14,215	\$ 13,582	\$49,833	\$ 47,633
Expenses:				
Ice rinks	13,169	12,358	41,514	38,857
Earnings from operations	1,046	1,224	8,319	8,776
General and administration expenses	1,186	1,185	3,476	3,284
Earnings (loss) before the undernoted	(140)	39	4,843	5,492
Other expenses:				
Amortization	1,210	1,117	3,580	3,324
Interest	827	908	2,482	2,716
Gain on held-for-trading financial liabilities (note 12)	(87)	(70)	(242)	(288)
Other	(24)	(26)	(45)	(64)
	1,926	1,929	5,775	5,688
Loss before taxes	(2,066)	(1,890)	(932)	(196)
Future income tax recovery (expense)	550	529	185	(117)
Net loss	(1,516)	(1,361)	(747)	(313)
Deficit, beginning of period	(16,710)	(19,165)	(17,479)	(20,213)
Deficit, end of period	\$ (18,226)	\$ (20,526)	\$ (18,226)	\$ (20,526)
Basic and fully diluted earnings (loss) per common share	\$ (0.11)	\$ (0.10)	\$ (0.06)	\$ (0.02)
Weighted average common shares issued for basic and diluted earnings per share calculations	13,337,448	13,337,448	13,337,448	13,337,448

See accompanying notes to consolidated financial statements.

CANLAN ICE SPORTS CORP.

Consolidated Statements of Cash Flows (unaudited)
(In thousands of dollars)

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Cash provided by (used in):				
Operations:				
Net loss from operations	\$(1,516)	\$(1,361)	\$(747)	\$(313)
Items not involving cash:				
Amortization	1,210	1,117	3,580	3,324
Amortization of deferred financing costs	24	24	72	84
Gain on sale of assets		-	(9)	(32)
Future income tax	(551)	(529)	(185)	117
Gain on financial liability held for trading	(87)	(70)	(242)	(288)
Net change in non-cash working capital	1,448	3,934	(3,619)	(2,115)
	528	3,115	(1,150)	777
Investing activities:				
Expenditures on ice rink properties	(390)	(702)	(1,693)	(1,330)
Proceeds from sale of other assets	5	-	10	50
Other assets	(42)	(29)	(192)	(91)
	(427)	(731)	(1,875)	(1,371)
Financing activities:				
Repayment of debt on ice rinks	(669)	(655)	(1,253)	(1,191)
Repayment of obligations under capital lease	(126)	(97)	(485)	(350)
Redemption of preferred shares	-	(1,400)	-	(1,400)
	(795)	(2,152)	(1,738)	(2,941)
(Decrease) increase in cash	(694)	232	(4,763)	(3,535)
Cash position, beginning of period	5,144	3,821	9,213	7,588
Cash position, end of period	\$4,450	\$4,053	\$4,450	\$4,053

Supplemental cash flow information (note 15(b)).

See accompanying notes to consolidated financial statements.

CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements (unaudited)

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

Nine months ended September 30, 2010

1. General:

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

2. Nature of operations:

The Company has 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. The Company has two long-term debt agreements, one of which matures in 2011 and the other, in 2018. At September 30, 2010, the long term debt payable of \$17,662,000 that matures in 2011 has been entirely classified as a current liability in accordance with EIC 122 of the CICA Handbook. The Company expects to refinance the debt prior to its maturity.

Excluding the effects of this presentation, the Company has a working capital deficiency of \$4,852,000 as the Company finances a portion of its long term assets through customer deposits.

3. Significant accounting policies:

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

(a) Principles of consolidation:

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

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

(b) Inventory:

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

(c) Long-lived assets:

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

CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements (unaudited)

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

Nine months ended September 30, 2010

3. Significant accounting policies (continued):

(c) Long-lived assets continued:

A two-step process is used to assess the impairment of long-lived assets held for use, with the first step determining whether impairment needs to be recognized, and the second step measuring the amount of the impairment. Impairment losses are recognized when the carrying amount of long-lived assets exceeds the sum of the undiscounted cash flows expected to result from their use and eventual disposition. An impairment loss is determined as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

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

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

(d) Revenue recognition:

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

(e) Management contracts:

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

(f) Foreign currency:

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

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Notes to Consolidated Financial Statements (unaudited)

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

Nine months ended September 30, 2010

3. Significant accounting policies (continued):

(g) Financial Instruments:

The Company designated its cash and cash equivalents as available for sale, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable, accrued liabilities, debt on ice rinks and preferred shares, are classified as other financial liabilities, which are measured at amortized cost. Derivative contracts are measured at fair value. Transaction costs are offset against the outstanding principal of the related debts and are amortized using the effective interest rate method. The Company did not have held-to-maturity instruments at September 30, 2010.

Financial instruments carried at fair value are classified within a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Company's financial instruments. The hierarchy of inputs is summarized below:

- Level 1: Quoted prices (unadjusted) in active markets
- Level 2: Inputs other than quoted prices included in Level 1 that are observable either directly (i.e. prices) or indirectly (i.e. derived from prices)
- Level 3: Inputs that are not based on observable market data (unobservable inputs)

(h) Derivative financial instruments:

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

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

In the determination of fair value of derivative instruments, the Company considers its own credit risk and the credit risk of the counterparty.

(i) Earnings per share:

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

(j) Stock-based compensation:

Stock appreciation rights (SARs) are settled in cash and are recognized over their vesting period and 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.

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Notes to Consolidated Financial Statements (unaudited)

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

Nine months ended September 30, 2010

3. Significant accounting policies (continued):

(k) Measurement uncertainty:

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

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

(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.

4. Future changes in accounting policies:

(a) International Financial Reporting Standards:

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that International Financial Reporting Standards (IFRS) will replace Canadian GAAP in 2011 for all publicly accountable Canadian enterprises. These new standards will be effective for the Company's interim financial statements commencing January 1, 2011.

(b) Business Combinations:

In January 2009, the CICA issued Handbook Section 1582, *Business Combinations*. Section 1582 will be converged with IFRS 3, *Business Combinations* and replaces Handbook Section 1581, *Business Combinations*. Section 1582 establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. This section is effective for acquisition dates on or after January 1, 2011. The Company may elect to early adopt this section and if so, will be required to early adopt Section 1601, *Consolidated Financial Statements* and Section 1602, *Non-controlling Interests*.

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Notes to Consolidated Financial Statements (unaudited)

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

Nine months ended September 30, 2010

5. Ice rinks:

September 30, 2010	Cost	Accumulated amortization	Net book value
Land	\$ 14,616	\$ -	\$ 14,616
Buildings and building improvements	107,631	34,193	73,438
Machinery and equipment	8,310	5,022	3,288
Computers, furniture and fixtures	6,887	4,662	2,225
Ice resurfacing equipment	3,960	2,755	1,205
	\$ 141,404	\$ 46,632	\$ 94,772

December 31, 2009	Cost	Accumulated amortization	Net book value
Land	\$ 14,616	\$ -	\$ 14,616
Buildings and building improvements	107,155	32,026	75,129
Machinery and equipment	7,802	4,598	3,204
Computers, furniture and fixtures	6,018	4,110	1,908
Ice resurfacing equipment	3,537	2,472	1,065
	\$ 139,128	\$ 43,206	\$ 95,922

6. Debt on ice rinks:

	Maturity dates	Interest rates	September 30, 2010	December 31, 2009
Fixed rate	2018	6.79%	\$ 28,125	\$ 28,500
Variable rate	2011	Prime + 1.25%	11,818	12,247
	2011	Prime + 1.25%	5,844	6,293
			45,787	47,040
Less: deferred financing costs			(373)	(445)
			45,414	46,595
Current portion			19,162	2,685
Long-term portion			\$ 26,252	\$ 43,910

As at September 30, 2010, debt on ice rinks consists of three credit facilities with two lending institutions as follows:

- \$13,000,000 loan maturing on September 30, 2011, interest at Prime rate plus 1.25% payable monthly, The Company has entered into an interest rate swap agreement to fix the interest rate on the total principal borrowed at a rate of 4.12% per annum, plus

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Nine months ended September 30, 2010

applicable stamping fees at 2.5%, under an agreement expiring in September 2011. At September 30, 2010, the balance outstanding was \$11,818,000 and has been presented as a current liability in accordance with EIC 122 of the CICA Handbook. The Company expects to refinance the debt prior to its maturity ;

- \$7,000,000 loan maturing on September 30, 2011, interest at Prime rate plus 1.25% per annum, payable monthly. At September 30, 2010, the balance outstanding was \$5,844,000 and has been presented as a current liability in accordance with EIC 122 of the CICA Handbook. The Company expects to refinance the debt prior to its maturity; and
- \$30,000,000 loan maturing on July 15, 2018, fixed interest at 6.79% per annum, payable monthly. At September 30, 2010, the balance outstanding was \$28,125,000.

Amortization of deferred financing costs totaling \$72,000 (2009 - \$84,000) was recorded as interest expense. Debt on ice rinks is secured by first mortgages, demand debentures, general security agreements, general assignments of book debts, assignments of rents and insurance, and specific pledging of title to and interest in the respective land and buildings.

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

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, 2009 and September 30, 2010	13,337,448	\$ 63,109

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Notes to Consolidated Financial Statements (unaudited)

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

Nine months ended September 30, 2010

8. Stock-based compensation:

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 table below summarizes the change in the number of SAR during the period ended September 30, 2010:

	Number of SAR	Weighted average exercise price
Number of SAR outstanding, December 31, 2009	755,250	\$ 1.15
Exercised	(363,750)	1.20
Balance, September 30, 2010	391,500	\$ 1.10

The following table summarizes information about the stock appreciation rights outstanding at September 30, 2010:

Exercise price	Rights outstanding			Rights exercisable	
	Number outstanding	Remaining contractual life	Exercise price	Number exercisable	Exercise price
\$ 1.20	198,250	2 months	\$ 1.20	198,250	\$ 1.20
\$ 1.20	35,000	15 months	\$ 1.20	35,000	\$ 1.20
\$ 0.80	123,250	38 months	\$ 0.80	41,083	\$ 0.80
\$ 1.50	35,000	43 months	\$ 1.50	11,666	\$ 1.50

During the nine months ended September 30, 2010, the Company recognized compensation expense of \$341,000 (2009 – \$229,000) in respect of the SAR Plan.

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Notes to Consolidated Financial Statements (unaudited)

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

Nine months ended September 30, 2010

9. Capital risk management:

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

The Company's objectives when managing its capital are:

- (a) To safeguard the entity'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 is calculated as follows:

Shareholders' equity	\$ 45,426
Less:	
Net future income tax asset	(2,647)
Net worth	42,779
Current and long-term portions of:	
Debt on ice rinks	45,787
Capital leases	1,613
Total debt	\$ 47,400
Debt to tangible net worth ratio	1.11

The Company has not made any changes to its overall capital management strategy during the nine months ended September 30, 2010.

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Notes to Consolidated Financial Statements (unaudited)

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

Nine months ended September 30, 2010

10. Commitments and contingencies:

- (a) At September 30, 2010, the Company has lease agreements with third parties under the terms of which the Company leases and operates certain ice rink and recreational facilities. The Company assumes the financial risks and rewards of the facilities' operations, but there will be no transfer of ownership. Accordingly, the lease agreements have been accounted for as operating leases. The total minimum lease payments are as follows:

Years ending December 31:	Langley Twin Rinks	Ice Sports Victoria Park	Ice Sports York	Ice Sports Vineland	Ice Sports Fort Wayne
2010	\$ 220	\$ 327	\$ 298	\$ 341	\$ 351
2011	220	328	298	341	587
2012	220	328	298	341	604
2013	220	328	298	-	652
2014	220	328	298	-	656
Thereafter	-	1,667	8,879	-	11,869

- (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 US\$3,800,000.
- (v) Ice Sports Fort Wayne is a three-pad facility in Indiana with a lease term that began on February 1, 2010 and will end on January 31, 2030. The lease gives the Company the option to purchase the facility from the lessor for property cost (not to exceed US\$9,300,000) anytime during the first five years of the lease, and property cost (not to exceed US\$9,300,000) plus US\$500,000 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.
- (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

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Notes to Consolidated Financial Statements (unaudited)

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

Nine months ended September 30, 2010

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 future income tax assets and future income tax liabilities at September 30, 2010 and December 31, 2009 are presented below:

	September 30, 2010	December 31, 2009
Future income tax assets:		
Unused tax losses	\$ 4,660	\$ 4,124
Properties	348	348
Unrealized loss on financial instruments	134	172
Other	356	369
	5,498	5,013
Less: valuation allowance	(1,871)	(1,573)
Total future income tax asset	3,627	3,440
Current portion of future income tax asset	3,513	3,326
Non-current future income tax asset	\$ 114	\$ 114
Future income tax liability:		
Properties – non-current	\$ (980)	\$ (980)
Net future income taxes	\$ 2,647	\$ 2,460
Presented on balance sheets as:		
Future income tax asset – current	\$ 3,513	\$ 3,326
Future income tax asset – non-current	114	114
Future income tax liability – non-current	(980)	(980)
	\$ 2,647	\$ 2,460

12. Financial instruments:

(a) Fair value:

The Company has the following financial instruments: cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, obligations under capital leases, debt on ice rinks, preferred shares and notes payable. The carrying values of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities are considered by management to approximate their fair values due to their short-term nature.

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Nine months ended September 30, 2010

Other financial instruments of a long-term nature 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, 2010 and do not require disclosure.

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 September 30, 2010, the fair value was \$327,000. Changes in the fair value of the instrument are recognized in net earnings. For the nine months ended September 30, 2010, a gain of \$242,000 was recognized.

(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 \$58,000 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, 2010 consists of customer deposits received in advance of the services being provided.

(d) Credit risk:

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

13. Related party transactions:

- (a) During the period, no preferred share dividends (2009 - \$153,700) were required to be paid to an affiliate of the controlling shareholder.
- (b) During the period, the Company incurred \$77,000 (2009 - \$81,800) in directors' fees.
- (c) The Chairman of the Board of Directors of the Company is a Director of a vendor from which the Company purchases services in the normal course of business. Purchases from this vendor for the nine months ended September 30, 2010 was \$33,000 (2009 - \$22,000).

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Notes to Consolidated Financial Statements (unaudited)

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

Nine months ended September 30, 2010

- (d) A Director of the Company is the Chairman of the Board of Directors of a vendor from which the Company purchases services in the normal course of business. Purchases from this vendor for the nine months ended September 30, 2010 was \$33,000 (2009 - \$22,000).

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 is as follows:

Nine months ended September 30	2010	2009
Ice and soccer	\$ 36,125	\$ 34,125
Restaurant and lounge	8,582	8,545
Sports store	1,414	1,440
Management and consulting fees	233	204
Other	3,479	3,319
	\$ 49,833	\$ 47,633

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

15. Supplemental cash flow information:

Nine months ended September 30	2010	2009
(a) Net changes in non-cash working capital:		
Accounts receivable	\$ (936)	\$ (632)
Inventory	(24)	26
Prepaid expenses	(831)	(622)
Accounts payable and accrued liabilities	(155)	(1,041)
Deferred revenue and customer deposits	(1,673)	154
	\$ (3,619)	\$ (2,115)
(b) Supplemental cash flow information:		
Interest paid	\$ 2,411	\$ 2,661
Non-cash transactions:		
Capital lease obligations	\$ 650	\$ 363



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

**For the Three and Nine Months Ended September 30, 2010
As of November 9, 2010**

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 September 30, 2010 and the consolidated operating results for the three and nine months ended September 30, 2010 compared to the three and nine months ended September 30, 2009. This document should be read in conjunction with our unaudited consolidated financial statements for the period ended September 30, 2010, the accompanying notes, and our audited consolidated financial statements for the years ended December 31, 2009 and December 31, 2008. 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.

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

The date of this MD&A is November 9, 2010.

Business 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.

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 63 full-sized ice sheets, two indoor soccer fields and three curling surfaces. The Company owns 11 of these facilities containing 1.2 million square feet of space; we operate two facilities under long-term land lease arrangements and a further four facilities under operating leases. We currently manage five facilities on behalf of third-party owners from both the private and public sector.

Change in facility portfolio from prior year:

On February 1, 2010, the Company commenced operations of Ice Sports Fort Wayne in Fort Wayne, Indiana. This facility is operated under a long-term lease agreement with a developer that constructed this three-pad facility. Canlan was involved with the design and specifications of this facility and is the first build-to-suit arrangement the Company has entered into. We have a seven-year option to purchase this facility for a price that ranges from US\$9.3 million to US\$9.8 million depending on when the option is exercised.

In a related transaction, the Company agreed to manage an existing city-owned ice rink facility in Fort Wayne for 10 years. Canlan will be responsible for the management of a single ice sheet contained within this community facility.

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

<u>Canada:</u>	<u>Number of Facilities</u>	<u>Number of Surfaces</u>
British Columbia	5	15
Alberta	1	2
Saskatchewan	3	8
Manitoba	1	4
Ontario	6	22
Quebec	2	6
	18	57
<u>USA:</u>		
Michigan	1	2
New Jersey	1	2
Indiana	2	4
	4	8
	22	65

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 \$1.70 to \$2.39 range during the quarter. The Company has not issued any shares since November 2004.

The Company derives revenue from five primary sources:

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

Selected Financial Information

The following selected consolidated financial information is for the nine months ended and as at September 30, 2010, 2009 and 2008. This data should be read together with the unaudited consolidated financial statements for the periods ended September 30, 2010, 2009, and 2008.

Our consolidated financial statements are prepared in accordance with Canadian GAAP, and are stated in Canadian dollars.

in thousands, except earnings per share (unaudited)

As at and for the nine months ended September 30,	2010	2009	2008
Statement of Operations Data:			
Total revenue (1)	\$49,833	\$47,633	\$45,686
Direct expenses (2)	41,514	38,857	36,408
General & administration expenses	3,476	3,284	2,600
	4,843	5,492	6,678
Other expenses (3)	5,775	5,688	6,140
Earnings before tax	(932)	(196)	538
Current and future tax expense	185	(117)	(169)
Net earnings	\$(747)	\$(313)	\$369
Basic and fully diluted earnings per share	\$(0.06)	\$(0.02)	\$0.03
Balance Sheet Data:			
Cash	\$4,450	\$4,053	\$3,622
Current assets (excluding cash)	8,669	7,547	6,203
Capital assets	95,628	97,438	99,048
Other assets	564	1,682	632
Total assets	\$109,311	\$110,720	\$109,505
Current liabilities, excluding debt	\$15,878	\$16,449	\$16,238
Mortgage debt	45,414	47,986	49,379
Equipment leases	1,613	1,652	1,257
Future income taxes	980	1,507	-
Preferred shares (classified as debt)	-	-	2,650
Total liabilities	\$63,885	\$67,594	\$69,524

- (1) Total revenue is comprised of ice rentals, food & beverage sales, sports store sales, sponsorship, advertising and management fees.
- (2) Direct expenses include all operating costs related to the operation of our facilities, including lease payments related to our leased properties.
- (3) Other expenses include amortization, interest, and gain (loss) on financial liabilities held for trading.

Review of Operations – Three months ended September 30, 2010

Comparative Results

Revenue

Total revenue of \$14.2 million increased by \$633,000 or 4.7% compared to 2009. Of this increase, \$349,000 was related to revenue from Ice Sports Fort Wayne, which was not in the Company's facility portfolio in the third quarter of 2009. Same store revenue of \$13.9 million increased by \$283,000 or 2.1%, principally due to higher revenue from the Summer Adult Safe Hockey League ("ASHL") season.

Same store revenue from food and beverage operations decreased slightly by \$24,000 or 1.1%. During the quarter, the BC region was the main factor for the year-over-year decrease as the Province's harmonized sales tax reduced consumer spending and in 2009, Canlan's BC facilities hosted the World Police and Firemen Games, which did not occur in 2010.

Canlan operates 10 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 four of its owned or leased facilities. Revenue from sports stores of \$386,000 remained steady compared to 2009.

Revenue from facility management contracts and consulting totaled \$65,000 compared to \$57,000 in 2009.

Other revenue of \$1.1 million increased by \$118,000 or 12%, mainly due to higher sponsorship and tournament revenue. This revenue source includes sales from our tournament division, building lease, space rental, vending, and sponsorship.

Expenses

Total direct operating expense of \$13.2 million increased by \$811,000 or 6.6%. Same store operating expense of \$12.7 million increased by \$339,000 or 2.7%. This increase was principally due to higher labour cost, utilities, and costs to service increased demand for tournaments, leagues and programs.

Corporate general and administration costs of \$1.2 million remained steady with the prior year. 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. In addition, all costs related to the consulting and management services division are also included in corporate administration expenses.

EBITA and net loss

For the third quarter, a loss before interest, tax and amortization of \$140,000 was incurred compared to earnings of \$39,000 in 2009. When operations are analyzed on an overall basis, this decline in operating earnings mainly resulted from losses incurred in the new Ice Sports Fort Wayne. During the third quarter, the new facility's loss before amortization was \$123,000. From its opening in February 2010, until the end of the third quarter, the facility incurred start-up costs as expected. Once revenue streams are normalized and the facility is fully ramped up, management expects the facility to contribute positively to EBITA.

Total interest expense of \$827,000 decreased from \$908,000 a year ago due to continued debt reduction. After recording an accounting gain on financial instruments of \$87,000 and future income tax recovery of \$550,000, net loss for the quarter was \$1.5 million compared to \$1.4 million in the prior year.

Development, Management and Consulting Services

The Company operates a development and management services 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 Company is currently managing five facilities on behalf of municipalities and private investors. Two of these contracts are located in British Columbia; the remaining three contracts are located in Alberta, Michigan, USA and Indiana, USA.

Review of Operations – Nine months ended September 30, 2010

Comparative Results

Revenue

Total revenue of \$49.8 million increased by \$2.2 million or 4.6% compared to the prior year. Same store revenue of \$49.0 million increased by \$1.4 million or 2.8%. This increase was principally due to ice and internal programming revenue. On a same store basis, revenue from the ASHL grew by \$1.0 million and revenue from instructional programs and youth hockey leagues increased by \$277,000. Drop-in programs and spot ice sales also increased by \$193,000.

Food and beverage revenue of \$8.6 million was steady with prior year. Same store revenue of \$8.4 million decreased by \$123,000 or 1.4%. Much of this decline was experienced in the BC marketplace where the new harmonized sales tax and the absence of the World Police and Firemen Games that were held in our facilities in 2009 had negative effects on food and beverage sales.

Revenue from sports stores of \$1.4 million remained steady compared to the prior year.

Management and consulting fees of \$233,000 increased by \$29,000 or 14%.

Other revenue, which includes sales from our tournament division, building lease, space rental, interest, vending, and sponsorship, increased by \$160,000 to \$3.5 million. The increase is mainly due to growth in registrations for Canlan's tournaments operated by our Tournament Division.

Expenses

Total direct operating costs of \$41.5 million increased by \$2.7 million or 6.8%. Same store operating costs of \$40.2 million increased by \$1.3 million or 3.4%.

Increased costs for utilities, wages, the new Company-sponsored RRSP plan and supplies to service higher volumes in our programs and leagues all contributed to the increase in operating costs.

Corporate general and administration expenses of \$3.5 million increased by \$192,000 or 5.8%, principally due to increased compensation expense related to the Company's Stock Appreciation Rights Plan, and the Company-sponsored RRSP program that began in 2010.

EBITA and net earnings

Earnings before interest, taxes, and amortization of \$4.8 million decreased by \$649,000 or 11.8%. An operating loss of \$507,000 from Ice Sports Fort Wayne during its start-up year is the main contributor to this year-over-year decline in EBITA.

After deducting interest, amortization, and recognizing a gain on the revaluation of the financial instrument, net loss was \$747,000 compared to net loss of \$313,000 in 2009.

Earnings by Quarter

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

	2010			2009				2008
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Gross revenue	\$14,215	\$15,745	\$19,873	\$19,563	\$13,582	\$14,606	\$19,445	\$18,984
Operating costs	(13,169)	(14,320)	(14,025)	(13,285)	(12,358)	(13,036)	(13,463)	(13,360)
	1,046	1,425	5,848	6,278	1,224	1,570	5,982	5,624
General & administration	(1,186)	(1,127)	(1,163)	(855)	(1,185)	(1,140)	(959)	(1,066)
EBITA	(140)	298	4,685	5,423	39	430	5,023	4,558
Interest	(827)	(849)	(806)	(826)	(908)	(890)	(918)	(1,074)
Amortization	(1,210)	(1,172)	(1,198)	(1,143)	(1,117)	(1,105)	(1,102)	(940)
Other	(111)	68	108	75	96	213	(43)	(933)
Net earnings (loss) before taxes and other	(2,066)	(1,655)	2,789	3,529	(1,890)	(1,352)	3,046	1,611
Income taxes and other	550	422	(787)	(482)	529	418	(1,064)	1,847
Net earnings (loss)	(1,516)	(\$1,233)	\$2,002	\$3,047	(\$1,361)	(\$934)	\$1,982	\$3,458
Earnings (loss) per share	(\$0.11)	(\$0.09)	\$0.15	\$0.22	(\$0.10)	(\$0.07)	\$0.15	\$0.26

On December 2, 2008, the Company completed a 20 for 1 share consolidation that reduced the issued and outstanding number of shares to 13,337,448. All per share information above have been restated to reflect the share consolidation on a retrospective basis.

Review of Assets

The table below summarizes the Company's asset base:

<i>in thousands</i>	September 30, 2010 (unaudited)	December 31, 2009 (audited)	September 30, 2009 (unaudited)
Ice rink facilities	\$94,772	\$95,922	\$96,582
Cash and cash equivalents	4,450	9,213	4,053
Accounts receivable	2,781	1,845	2,458
Prepaid expenses and other assets	1,777	841	1,278
Inventory	1,048	1,024	1,044
Land held for ice rink development	856	856	856
Future income taxes	3,627	3,440	4,449
	\$109,311	\$113,141	\$110,720

Purchases of capital expenditures to improve ice rink facilities and install leasehold improvements at Ice Sports Fort Wayne combined with scheduled amortization of assets resulted in a net decrease of \$1.2 million to capital assets compared to the most recent year end. A net usage of cash during the period of \$4.8 million contributed to a net

decrease in assets for the period. See "Liquidity and Capital Resources" below for discussion on uses of cash during the period.

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

Review of Liabilities

The table below summarizes the Company's capital structure:

<i>in thousands</i>	September 30, 2010 (unaudited)	December 31, 2009 (audited)	September 30, 2009 (unaudited)
Mortgages payable	\$45,414	\$46,595	\$47,986
Deferred revenue and customer deposits	10,346	12,019	11,124
Accounts payable	5,205	5,360	4,680
Capital leases	1,613	1,446	1,652
Financial liability held for trading	327	568	645
Future income taxes	980	980	1,507
	68,885	66,968	67,594
Shareholders' equity	45,426	46,173	43,126
	\$109,311	\$113,141	\$110,720

Total interest bearing debt, which includes mortgages payable and capital leases totaled \$47.0 million as at September 30, 2010, a net decrease of \$1.0 million from December 31, 2009. This decrease represents a combination of scheduled debt repayments, and additional leases to finance ice resurfacers and ice plant equipment.

The Company has two long-term debt agreements, one of which matures in 2011 and the other, in 2018. At September 30, 2010, the long term debt payable of \$17.7 million that matures in 2011 has been entirely classified as a current liability in accordance with Canadian accounting guidance. The Company fully expects to refinance the debt prior to its maturity. Excluding the effect of this presentation, the Company has a working capital deficiency of \$4.9 million, slightly lower than the deficiency of \$5.3 million at December 31, 2009. Deferred revenue and customer deposits represent customer registration and rental fees received in advance of when ice is actually used.

At September 30, 2010, the Company was in compliance with all debt covenants.

Liquidity and Capital Resources

The Company's debt to equity ratio was 1.04:1 at the end of the third quarter, compared to 1.05:1 at December 31, 2009.

During the nine months ended September 30, 2010, the Company had net cash outflow from operations of \$1.2 million compared to a net cash inflow of \$777,000. This

difference was mainly due to cash required to support operations in Fort Wayne. This cash deficiency was financed with cash on hand at the end of 2009.

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

<i>in thousands (unaudited)</i>	Nine months ended September 30	
	2010	2009
Earnings before interest, taxes and amortization	\$4,843	\$5,492
Changes in working capital items	(3,619)	(2,115)
Interest paid	(2,410)	(2,661)
Other	36	61
Cash flow from operations	(\$1,150)	\$777

During the quarter, the Company also used \$1.3 million to make scheduled debt principal and lease repayments, and \$1.7 million to purchase capital assets. Significant capital expenditures made during the period included: 1) \$452,000 related to building structural improvements; 2) \$469,000 on leasehold improvements and equipment for Ice Sports Fort Wayne; and 3) \$640,000 in ice plant equipment and furniture and fixtures in many of our locations.

Share Capital

Shares issued and outstanding at September 30, 2010 and December 31, 2009	<u>13,337,448</u>
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Weighted average number of shares outstanding	<u>13,337,448</u>
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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 2006. 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 September 30, 2010, 391,500 stock appreciation rights were outstanding with a weighted average exercise price of \$1.10. Approximately 286,000 rights were vested and are currently exercisable. During the first three quarters, 364,000 rights were exercised and stock-based compensation expense of \$341,000 (2009 – \$229,000) 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.

The Chairman of the Board of Directors of the Company is a Director of a vendor from which the Company purchases services in the normal course of business. Purchases from this vendor for the nine months ended September 30, 2010 was \$33,000 (2009 - \$22,000).

A Director of the Company is the Chairman of the Board of Directors of a vendor from which the Company purchases services in the normal course of business. Purchases from this vendor for the nine months ended September 30, 2010 was \$33,000 (2009 - \$22,000).

Financial Instruments

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

- Held for trading financial liabilities are measured at the fair value at the balance sheet date with any gain or loss recognized immediately in net income. The Company has entered into an interest-rate-swap agreement to fix the interest rate on a portion of its debt on ice rinks. The fair value of the instrument has been presented as a current liability on the balance sheet. At June 30, 2010, the fair value was \$327,000 (December 31, 2009 - \$568,000). Changes in the fair value of the instrument are recognized in net earnings. For the nine months ended September 30, 2010, a gain of \$242,000 was recognized.
- 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 September 30, 2010. The Company had no "other comprehensive income or loss" transactions during the nine months ended September 30, 2010 and no opening or closing balances for accumulated other comprehensive income or loss.

International Financial Reporting Standards

In February 2008 the CICA's Accounting Standards Board confirmed its strategy of replacing Canadian GAAP with International Financial Reporting Standards (IFRS) for Canadian publically accountable enterprises. IFRS will be effective for our interim and annual financial statements effective January 1, 2011. The conversion to IFRS will impact our accounting policies, internal control over financial reporting, and financial statement presentation and disclosure. The transition to IFRS may also affect contractual arrangements and debt covenants. We have established a conversion plan and an IFRS project team, and are currently completing our review of the accounting policy differences between Canadian GAAP and IFRS. In addition, we continue to review policy decisions and elections allowed under IFRS 1 to ensure we adequately address all the key elements of the conversion.

We continue to present and discuss the following significant identified differences with the Audit Committee and our Board of Directors:

Property, plant and equipment (PP&E) – we will likely adopt the cost method under IFRS and will review annually, depreciation methods and useful lives. Under International Accounting Standards (IAS) 36, our annual impairment testing methodology will change as we will determine value-in-use by discounting future cash flows expected to be generated by each cash-generating unit over a prescribed time period rather than totaling undiscounted cash flows over the remaining useful life of each cash-generating unit. Under this method of testing for impairment, we anticipate that an impairment allowance for PP&E may be necessary and this allowance will be recorded at the date of IFRS transition as a reduction to retained earnings pursuant to exemptions from retrospective application allowed under IFRS 1.

In addition, we will further componentize our accounting for PP&E as prescribed under section IAS 16, property plant and equipment by separating the cost significant components of our buildings that have useful lives of less than 40 years, such as refrigeration equipment and board systems. Canlan already separates rink properties into major components for amortization purposes.

Leases will be assessed for classification as operating or finance leases under IAS 17, Leases. Our preliminary assessment indicates that lease arrangements in which a purchase option exists, such that it is more likely than not the Company would exercise the option, may be accounted for as a finance lease (i.e. capital lease). This could result in a change in how we account for long terms leases however; we do not anticipate this accounting change to effect any other contractual arrangements or debt covenants.

Investment property – under IFRS investment property is defined as properties held to earn rental income. Therefore, Canlan's ice facility in Candiac, Quebec that is currently being leased out will be presented on a separate line item on the balance sheet rather than included in "Ice rink properties."

Stock-based compensation – under IFRS, stock-based compensation arrangements that are settled in cash, such as Canlan's SARs program, are valued using the fair value approach rather than the intrinsic approach. As such, an adjustment may be required in the accrual to record stock-based compensation expense in the opening IFRS balance sheet. Management is performing this calculation as at the date of this discussion.

Income taxes will be reviewed in accordance with IAS 12, Income taxes. Future income tax assets and liabilities recorded in our consolidated balance sheet will be reclassified to be entirely non-current and be renamed "deferred tax asset and liabilities." We have not identified any expected impairment to our future tax assets as a result of conversion to IFRS at the date of this report.

We are in the process of preparing a draft balance sheet in compliance with IFRS, as at the date of transition to IFRS, January 1, 2010. This opening balance sheet will be audited and will serve as a starting point upon which our future IFRS quarterly and annual consolidated financial statements will be prepared. Subsequently, during 2011, we will prepare draft financial statements and related notes in compliance with IFRS and consult with professional accounting firms to ensure IFRS accounting principles and standards are appropriately applied. In addition, during 2010, we will ensure that key employees continue to receive appropriate education related to IFRS and that they continue to monitor the impacts on our business processes and internal controls, information systems, and financial reporting.

As the International Accounting Standards Board continues to issue new standards during our conversion period, the final impact of IFRS on our financial statements and note disclosures will only be measured once the IFRS applicable at our conversion date are known. Our transition plans relating to IFRS are on schedule and we will continue to provide updates in our quarterly and annual Management's Discussion and Analysis until initial adoption on January 1, 2011.

We anticipate that during the transition period, the Company will make certain elections allowed under IFRS 1 – *First-time Adoption*. As such, these elections will require approval from the Audit Committee of the Board of Directors.

Forward Looking Statements

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

Risk Factors

Canlan is engaged primarily in the operation of multi-function 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.

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 that 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. 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 \$39.9 million. The remainder of our mortgage debt, totaling \$5.8 million, is subject to variable interest rates. For every 1% change in the prime rate, interest expense will change by \$58,000 per annum.

Our loans were refinanced in 2008 with varying maturity dates:

- 61% of the debt, currently \$28.1 million, matures on July 15, 2018. The estimated balance on maturity is \$16.5 million.
- 39% of our debt, currently \$17.7 million, matures on September 30, 2011. The estimated balance on maturity is \$16.6 million.

In accordance with Canadian accounting standards, 100% of the latter debt arrangement has been presented as a currently liability since the maturity date is within one year of the balance sheet date. 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.
- Management has commenced discussions with its creditors to refinance the amount that matures in 2011.

Critical Accounting Policies and Estimates

Canlan's critical accounting policies are described in Note 3 to the consolidated financial statements. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses and disclosure of contingent liabilities.

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

Useful lives of depreciable assets

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

30, 2010 - 87%). The selection method of amortization and length of the amortization period could have a material impact on amortization expense and the net book value of our assets. Assets may become obsolete or require replacement before the end of their estimated useful lives, in which case any remaining unamortized costs would be written off.

Revenue recognition

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

Valuation of future income tax assets

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

Disclosure Controls and Procedures

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

Based on current securities legislation in Canada, our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are required to certify that they have assessed the effectiveness of our disclosure controls and procedures as at September 30, 2010.

Our management has evaluated, under the supervision and with the participation of our CEO and CFO, the design and effectiveness of the Company's disclosure controls and procedures as at the period ended September 30, 2010. Management has concluded that these disclosure controls and procedures, as defined in National Instrument 52-109 – Certification of Disclosure in Issuers Annual and Interim Filings (NI 52-109), are adequate and effective and that material information relating to the Company was made known to them and reported within the time periods specified under applicable securities legislation.

Our management, under the supervision of our CEO and CFO, has also designed and evaluated the effectiveness of the Company's internal controls over financial reporting (ICFR) using the Internal Control – Integrated Framework as published by the Committee of Sponsoring Organization of the Treadway Commission (COSO) Framework. Based on our evaluation management has concluded that ICFR, as defined in NI 52-109 and using the COSO integrated framework are effective as of September 30, 2010.

Outlook

During the three completed quarters, some operations achieved targets, while others fell short. This, coupled with losses experienced at Ice Sports Fort Wayne during its start up period, resulted in decreased earnings when compared to the prior year.

Looking ahead into the fourth quarter's Fall/Winter season, we expect ice utilization to be at or near targeted levels in all regions with the possible exception of the Greater Toronto Area and Winnipeg. In these marketplaces, new competition and the effects of the harmonized sales tax will contribute to decreased registrations in our adult hockey leagues. However, we will activate an aggressive and creative sales approach to ensure that other in-house programs and spot ice sales mitigate this decrease.

While food and beverage operations are improving under the direction of our new Director, we anticipate consumer demand of food and beverage to remain soft during the remainder of the year in Ontario and BC. This is due to the lingering effects of a weakened economy in Ontario, the new harmonized sales tax, and the tightened drinking and driving legislation recently introduced in BC. Outside of these macro-economic factors, however, the outlook for our sports bars and concession operations are positive. Improved procedures and processes, and more cost effective agreements with our suppliers should improve food and beverage operating results in the coming months.

Canlan's facilities in the USA that were opened in September 2008 (Vineland) and February 2010 (Fort Wayne) have contributed to overall revenue growth but have not yet resulted in positive earnings. However, through nine months of 2010, Ice Sports Vineland has reduced its loss by \$213,000 on a year-over-year basis. The facility also reached its target in terms of registrations for its Winter adult hockey league. Ice Sports Fort Wayne is beginning its first Winter season and we anticipate that ice utilization will be up significantly with adult recreation hockey, minor hockey, parties, and instructional programs.

Michael F. Gellard
Senior Vice President
Chief Financial Officer