CANLAN ICE SPORTS

FIRST QUARTER REPORT

MARCH 31, 2012

Brossard | North Shore | Saskatoon | Langley | Oakville | Romeoville | Fort Wayne | Edmonton | Scarborough

Condensed Consolidated Interim Financial Statements

CANLAN ICE SPORTS CORP.

For three months ended March 31, 2012
(Unaudited)

Notice of no auditor review of interim consolidated financial statements

The accompanying condensed consolidated interim financial statements of the Company, as at and for the period ended March 31, 2012 have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by the entity's auditor.

CANLAN ICE SPORTS CORP.

Condensed Consolidated Statement of Financial Position

(Expressed in thousands of dollars)

	March 31, 2012 (unaudited)	December 31, 2011 (audited)
Assets		
Current assets:		
Cash and cash equivalents	$ 11,723	$ 13,886
Accounts receivable	1,888	1,717
Inventory	933	1,121
Prepaid expenses	1,243	560
	15,787	17,284
Non-currrent assets:		
Property, plant and equipment – facilities (note 5)	83,721	84,303
Investment properties	664	664
Deferred tax assets (note 12)	1,040	2,025
Other assets	517	464
	85,942	87,456
	$ 101,729	$ 104,740
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 6,474	$ 5,984
Deferred revenue and customer deposits	6,708	11,495
Financial liability held for trading (note 13)	47	114
Current portion of:		
Obligations under finance leases	471	443
Debt on ice rinks (note 6)	3,090	3,068
	16,790	21,104
Non-current liabilities:		
Obligations under finance leases	718	630
Debt on ice rinks (note 6)	37,379	37,831
Deferred tax liabilities (note 12)	543	543
	38,640	39,004
	55,430	60,108
Shareholders' equity:		
Share capital (note 7)	63,109	63,109
Contributed surplus	543	543
Deficit	(17,353)	(19,020)
	46,299	44,632
	$ 101,729	$ 104,740

Nature of operations (note 2)
Commitments and contingencies (note 11)

See accompanying notes to condensed consolidated interim financial statements.
Approved on behalf of the Board:

/s/ W. Grant Ballantyne
Director

/s/ Joey St-Aubin
Director

CANLAN ICE SPORTS CORP.

Condensed Consolidated Statements of Earnings and Comprehensive Income
(Unaudited)

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

For three months ended March 31

	2012	2011
Revenue:		
Ice rink and recreational facilities (note 16)	$ 21,148	$ 20,427
Expenses (note 18):		
Ice rinks and recreational facilities:		
Salaries, wages and benefits	7,084	6,936
Selling, customer service and other	2,479	2,436
Utilities	1,834	1,865
Cost of goods sold	1,517	1,519
Repairs and maintenance	799	758
Property tax	697	664
Facility lease	407	391
Provision for loss on contract (note 9)	314	-
	15,131	14,569
Earnings from ice rink and recreational facilities	6,017	5,858
General and administration expenses (note 10 and 18)	1,257	1,177
Earnings before the undernoted	4,760	4,681
Other expenses (income) (note 18):		
Depreciation	1,355	1,281
Other	(14)	5
	1,341	1,286
Finance income (costs):		
Finance income	89	87
Finance costs	(653)	(778)
	(564)	(691)
Earnings before income taxes	2,855	2,704
Deferred income tax expense (note 12)	988	872
Net earnings and comprehensive income	1,867	1,832
Basic and fully diluted earnings per share	$ 0.14	$ 0.14
Weighted average common shares issued for basic and diluted earnings per share calculations	13,337,448	13,337,448

See accompanying notes to condensed consolidated interim financial statements.

CANLAN ICE SPORTS CORP.

Condensed Consolidated Statement of Changes in Equity
(Unaudited)

(Expressed in thousands of dollars)

		Share capital		Contributed surplus		Deficit		Total
Balance at December 31, 2010	$	63,109	$	543	$	(21,063)	$	42,589
Net earnings and comprehensive income		-		-		1,832		1,832
Dividends to common shareholders		-		-		(200)		(200)
Balance at March 31, 2011	$	63,109	$	543	$	(19,431)	$	44,221
Net earnings and comprehensive income		-		-		1,012		1,012
Dividends to common shareholders		-		-		(601)		(601)
Balance at December 31, 2011		63,109		543		(19,020)		44,632
Net earnings and comprehensive income		-		-		1,867		1,867
Dividends to common shareholders		-		-		(200)		(200)
Balance at March 31, 2012	$	63,109	$	543	$	(17,353)	$	46,299

See accompanying notes to condensed consolidated interim financial statements.

CANLAN ICE SPORTS CORP.

Condensed Consolidated Statements of Cash Flows
(Unaudited)

(Expressed in thousands of dollars)

For three months ended March 31, 2012 and 2011

		2012		2011
Operations:				
Net earnings	$	1,867	$	1,832
Items not involving cash:				
Depreciation		1,355		1,281
Gain on sale of assets		-		(2)
Net finance costs		564		691
Provision for loss on contract		314		-
Deferred income taxes		988		872
Net change in non-cash working capital (note 17)		(5,207)		(4,585)
Interest paid		(645)		(754)
Interest received		23		20
		(741)		(645)
Financing:				
Principal repayments of debt on ice rinks		(446)		(296)
Principal repayments on obligations under finance lease		(146)		(160)
Payment of dividends on common shares		(200)		(200)
		(792)		(656)
Investments:				
Net proceeds on sale of assets		-		3
Expenditures on ice rink and recreational facilities		(472)		(134)
Expenditures on other assets		(95)		(73)
		(567)		(204)
Effect of changes in foreign currency rates on cash and cash equivalents		(63)		(19)
Decrease in cash and cash equivalents		(2,163)		(1,524)
Cash and cash equivalents, beginning of period		13,886		8,903
Cash and cash equivalents, end of period	$	11,723	$	7,379

Supplemental cash flow information (note 17).

See accompanying notes to condensed consolidated interim financial statements.

1. Reporting entity:

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

2. Nature of operations:

The Company has long-term debt with principal payments coinciding with the Company's seasonal business such that the Company expects that it will not require financing during the off peak hockey season. In addition, the long-term debt agreements have maturity dates in 2014 to 2018 to provide the Company with liquidity over a reasonable period of time. The Company has a working capital deficiency of $1,003,000 as the Company finances a portion of its assets through customer deposits.

3. Basis of preparation:

(a) Statement of compliance:

The condensed consolidated interim financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") incorporating Interpretations issued by the IFRS Interpretations Committee ("IFRICs").

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 10, 2012.

(b) Basis of measurement:

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

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

(c) Functional and presentation currency:

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

(d) Use of estimates and judgments:

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

3. Basis of preparation (continued):

(d) Use of estimates and judgments (continued):

Key sources of estimation uncertainty are the areas where assumptions and estimates have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities. These are:

- *Accounts receivables* - in determining the valuation of accounts receivable and the allowance for doubtful accounts, the Company relies on current customer information, payment history, and trends.
- *Accounting for stock-based compensation* - the fair value of the Company's stock appreciation rights ("SAR") is based on certain estimates used in applying the Black-Scholes pricing model. The rights are cash-settled and are classified as a liability and re-measured to fair value at each reporting date by recognizing compensation cost over the life of the SAR based on the vesting terms of each tranche.
- *Revenue recognition* - revenue from ice rink operations is recognized as the product or service is supplied. Deferred revenue relates to amounts received in advance for the Company's 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 the Company's estimates. Any differences are recognized upon completion of the season.
- *Deferred income tax* - deferred income tax assets and liabilities are calculated by assessing temporary differences resulting from differing treatment of items for tax and accounting purposes and net operating losses carried forward. The valuation of deferred tax assets are measured based on management's estimates of future taxable income and expected timing of reversals of temporary differences.

Critical judgments that have a higher degree of judgment and the most significant effect on the Company's financial reporting, apart from those involving estimates (discussed above), include:

- *Recoverability of property, plant, and equipment* - the recoverability of the Company's recreational properties is based on future discounted cash flows expected to be generated from such assets. These cash flows are based on management's approved budgets and projections. When appropriate, third-party appraisals will also be used to assess the recoverability of recreational properties.
- *Useful lives of property, plant, and equipment* - property, plant, and equipment are depreciated on a straight-line basis over their estimated useful life. Approximately 80% of the Company's total assets are comprised of recreational properties. The selection method of depreciation and length of the depreciation period could have a material impact on depreciation expense and the net book value of the Company's assets. Assets may become obsolete or require replacement before the end of their estimated useful lives, in which case any remaining unamortized costs would be written off.

4. Significant accounting policies:

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

(a) Basis of consolidation:

(*i*) Subsidiaries:

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

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

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

(*ii*) Transactions eliminated on consolidation:

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

(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 and estimated net realizable value. The cost of inventory is based on the first-in first-out principle. Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling expenses.

(c) Property, plant, and equipment:

(*i*) Recognition and measurement:

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

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized within gain on sale of assets.

4. Significant accounting policies (continued):

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

(*ii*) Subsequent costs:

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

(*iii*) Depreciation:

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

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

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

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

(d) Investment property:

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is carried at cost less depreciation. Depreciation is recognized in net earnings on a straight-line basis over the estimated useful lives of each investment property. The estimated useful lives for the current and comparative periods for investment property are consistent with the estimated useful lives for property, plant and equipment as described in note 4(c)(*iii*).

(e) Other assets:

Included in other assets are fixed assets located in the Company's corporate office.

4. Significant accounting policies (continued):

(f) Leased assets:

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

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

(g) Lease payments:

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

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

(h) Revenue recognition:

(*i*) Ice and field time:

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

(*ii*) Goods sold:

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

(*iii*) Sponsorship:

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

(*iv*) Management contracts:

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

(*v*) Rental income:

Rental income is recognized in net earnings on a straight-line basis over the term of the lease.

4. Significant accounting policies (continued):

(i) Foreign currency:

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

(j) Financial Instruments:

(*i*) Non-derivative financial assets:

The Company has the following non-derivative financial assets: loans and receivables. Such financial assets have fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise of cash and cash equivalents and accounts receivable.

Cash and cash equivalents comprise cash balances and deposits with financial institutions and other short-term, highly liquid investments with original maturities of three months or less when acquired, that are readily convertible to known cash.

(*ii*) Non-derivative financial liabilities:

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

(*iii*) Derivative financial instruments:

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

On October 21, 2011, 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 net earnings with a corresponding asset or liability recorded on the condensed consolidated statement of financial position. Payments and receipts under the interest rate swap contract are recognized as adjustments to interest expense which are recognized within finance costs.

4. Significant accounting policies (continued):

(k) Earnings per share:

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

(l) Employee benefits:

(*i*) Defined contribution plans:

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in net earnings in the period in which services are rendered by employees. Contributions to a defined contribution plan that are due more than twelve months after the end of the period in which the employees render the service are discounted to their present value. On January 1, 2010, the Company established a defined contribution plan for its employees whereby the Company matches contributions to a maximum of 4% of salaries. Included in salaries, wages and benefits within ice rink and recreational facilities and general and administrative expenses is $80,000 (2011 - $77,000) in respect of the Company’s contributions.

(*ii*) Share-based:

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

(m) Finance income and finance costs:

Finance income comprises bank interest income and changes in the fair value of financial assets and liabilities at fair value through net earnings. Interest income is recognized in net earnings as it accrues.

Finance costs comprise interest expense on borrowings and obligations under finance leases, bank charges and changes in the fair value of financial assets and liabilities at fair value through profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in net earnings using the effective interest method.

(n) Income tax:

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

4. Significant accounting policies (continued):

(n) Income tax (continued):

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

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

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

(o) Impairment:

(*i*) Financial assets:

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

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

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

4. Significant accounting policies (continued):

(o) Impairment (continued):

(*ii*) Non-financial assets:

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

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

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

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

(p) Segment reporting:

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

(q) New standards and interpretations not yet adopted:

At the date of authorization of these condensed consolidated interim financial statements, the following standards and interpretations were issued but not yet effective:

(*i*) In 2009, the IASB issued the first part of IFRS 9 *Financial Instruments - Classification and Measurement*. This standard is anticipated to be effective for periods starting on or after January 1, 2015. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

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

4. Significant accounting policies (continued):

(q) New standards and interpretations not yet adopted (continued):

(*ii*) In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements.* This new standard is effective for years beginning on or after January 1, 2013 with early adoption permitted under certain circumstances. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

(*iii*) In May 2011, the IASB issued IFRS 13 *Fair Value Measurement* which provides a single source of guidance on how to measure fair value where it is already required or permitted by another IFRS, and enhancing disclosure requirements for information about fair value measurements. This new standard is effective for years beginning on or after January 1, 2013. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

5. Property, plant and equipment - facilities:

March 31, 2012	Cost	Accumulated amortization	Net book value
Land	$ 14,388	$ -	$ 14,388
Buildings and building improvements	90,717	32,570	58,147
Rink board systems	3,443	1,728	1,715
Refrigeration equipment	8,418	5,276	3,142
Machinery and equipment	8,483	5,286	3,197
Computers, furniture and fixtures	7,744	5,735	2,009
Ice resurfacing equipment	4,231	3,108	1,123
	$ 137,424	$ 53,703	$ 83,721

December 31, 2011	Cost	Accumulated amortization	Net book value
Land	$ 14,388	$ -	$ 14,388
Buildings and building improvements	90,542	31,921	58,621
Rink board systems	3,442	1,693	1,749
Refrigeration equipment	8,417	5,171	3,246
Machinery and equipment	8,332	5,145	3,187
Computers, furniture and fixtures	7,606	5,450	2,156
Ice resurfacing equipment	3,966	3,010	956
	$ 136,693	$ 52,390	$ 84,303

For three months ended March 31, 2012 and 2011, no impairment losses were recognized.

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

6. Debt on ice rinks:

	Maturity dates	Interest rates	March 31, 2012	December 31, 2011
Fixed rate	2018	6.79%	$ 25,500	$ 25,500
Variable rate	2014	Prime + 1.25%	8,658	8,869
	2014	Prime + 1.25%	4,165	4,297
	2016	LIBOR + 2.50%	2,422	2,525
			40,745	41,191
Deferred financing costs			(276)	(292)
			40,469	40,899
Current portion			3,090	3,068
Non-current portion			$ 37,379	$ 37,831

As at March 31, 2012, debt on ice rinks consists of four credit facilities with three lending institutions as follows:

- $30,000,000 loan maturing on July 15, 2018, fixed interest at 6.79% per annum, payable monthly. At March 31, 2012, the balance outstanding was $25,500,000;
- $9,000,000 loan maturing on September 30, 2014, interest at Prime rate plus 1.25% payable monthly. The Company has entered into an interest rate swap agreement to fix the interest rate on the total principal borrowed at a rate of 4.15% per annum, under an agreement expiring on September 30, 2014. At March 31, 2012, the balance outstanding was $8,658,000;
- $5,381,000 loan maturing on September 30, 2014, interest at Prime rate plus 1.25% per annum, payable monthly. At March 31, 2012, the balance outstanding was $4,165,000; and
- $2,555,000 loan maturing on October 31, 2016, interest at LIBOR plus 2.5% per annum, payable monthly. At March 31, 2012, the balance outstanding was $2,422,000. This loan is denominated in U.S. currency.

Amortization of deferred financing costs totaling $15,000 (2011 - $24,000) was recorded in finance costs. Debt on ice rinks is secured by first mortgages, demand debentures, general security agreements, general assignments of book debts, assignments of rents and insurance, and specific pledging of title to, and interest in the respective land and buildings.

The Company has available, a $1,000,000 uncommitted operating line of credit that was unused at March 31, 2012. Outstanding amounts would incur interest at the Prime rate plus 1.75%, and be secured by general security agreements. The operating line of credit expires on September 30, 2014. In addition, the Company has available, a $5,000,000 committed revolving credit facility. Outstanding amounts would incur interest at Prime rate plus 1.25%. The revolving credit facility expires on September 30, 2014. This credit facility was unused at March 31, 2012.

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

7. Share capital:

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

	Number of Shares	Amount
(a) Authorized:		
500,000,000 common shares of no par value		
(b) Issued and outstanding:		
March 31, 2012 and December 31, 2011	13,337,448	$ 63,109

On March 22, 2012, the Company declared a quarterly dividend of $0.015 per share which was paid on April 17, 2012. On November 10, 2011, the Company declared a quarterly dividend of $0.015 per share, which was paid on January 16, 2012.

8. Stock-based compensation:

In 2005, the Company established a Stock Appreciation Rights plan (the SAR Plan) granted by the Company's Board of Directors subject to terms and conditions of the Canlan Ice Sports Corp. Director and Employee Stock Appreciation Rights Plan (2006). The SAR Plan provides eligible directors and employees of the Company with the right to receive cash equal to the appreciation of the Company's common shares subsequent to the date of grant.

The table below summarizes the change in the number of SAR during three months ended March 31, 2012:

	Number of SAR	Weighted average exercise price
Number of SAR outstanding, December 31, 2011	760,750	$ 1.80
Exercised	(17,625)	0.80
Balance, March 31, 2012	743,125	$ 1.82
Exercisable, December 31, 2011	292,750	$ 1.58
Exercisable, March 31, 2012	275,125	$ 1.63

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

8. Stock-based compensation (continued):

The following table summarizes information about the stock appreciation rights outstanding at March 31, 2012:

	Rights outstanding			Rights exercisable	
Exercise price	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
$ 0.80	76,125	20 months	$ 0.80	76,125	$ 0.80
$ 1.50	35,000	25 months	$ 1.50	23,333	$ 1.50
$ 2.00	527,000	20 months	$ 2.00	175,667	$ 2.00
$ 1.80	70,000	27 months	$ 1.80	-	$ 1.80
$ 1.75	35,000	32 months	$ 1.75	-	$ 1.75

During the three months ended March 31, 2012, the Company recognized compensation expense of $32,000 (2011 - $45,000) in respect of the SAR Plan. This amount was calculated in accordance with the fair value method of accounting. At March 31, 2012, the SAR liability included within accounts payable and accrued liabilities is $120,000 (December 31, 2011 - $108,000).

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

	March 31, 2012	March 31, 2011
Risk free interest rate	2.49%	3.61%
Expected dividend yield	3%	3%
Expected lives of rights	2.5 - 4.5 years	2.5 - 4.5 years
Expected volatility	31% - 47%	56%

Risk free interest rate is the Government of Canada long-term bond rate. Expected dividend yield assumes a continuation of the most recent dividend payment for the quarterly dividends. Expected lives of rights is based on historical experience of rights being exercised. Expected volatility is based on the historical share price volatility over the past 2.5 - 4.5 years.

9. Provision for loss on contract

The Company has recorded a provision of $314,000 related to a lease contract for which unavoidable costs under the contract exceed the benefits the Company will derive from it. The expected loss is recognized in the consolidated statements of earnings and comprehensive income. The lease contract relates to the operations in Vineland, New Jersey (note 11).

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

10. General and administration expenses:

General and administration expenses consist of the following:

		2012		2011
Salaries, wages and benefits	$	906	$	827
Professional and regulatory fees		180		176
Office		85		71
Travel		54		48
Other		32		55
	$	1,257	$	1,177

11. Commitments and contingencies:

(a) At March 31, 2012, the Company has lease agreements with third parties under the terms of which the Company leases and operates certain ice rink and recreational facilities. During the lease terms, 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:

Not later than one year	$	1,779
Later than one year and not later than five years		7,218
Later than five years		22,761

The lease expenditure charged to net earnings during the year is presented as facility lease on the condensed consolidated statement of earnings and comprehensive income.

Terms of facility operating leases are as follows:

(i) Ice Sports Langley Twin Rinks is a two-pad facility in British Columbia with a lease term that ends on December 31, 2024.

(ii) Ice Sports Victoria Park is a two-pad facility in Ontario with a lease term that ends on January 31, 2020.

(*iii*) On August 1, 2006, the Company purchased an ice rink facility in Toronto, Ontario. Upon purchase, the Company assumed a forty-nine year land lease agreement related to the land on which the facility is situated. The land lease agreement is with a third party and ends on October 30, 2044.

(*iv*) Ice Sports Vineland is a two-pad facility in New Jersey with a lease term that ends on December 31, 2012. At the conclusion of the lease, the Company will have the option to purchase the facility for USD$3,800,000. The Company does not anticipate it will exercise this option.

(*v*) Ice Sports Fort Wayne is a three-pad facility in Indiana with a lease term that began on February 12, 2010 and will end on January 31, 2030. The lease gives the Company the option to purchase the facility from the lessor for USD$9,300,000 anytime during the first five years of the lease, and USD$9,800,000 during years six and seven.

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

11. Commitments and contingencies (continued):

(a) (continued):

(*vi*) On December 15, 2011, the Company entered into a lease agreement relating to a property in Mississauga, Ontario with a lease term that will begin on April 1, 2012 and end on October 15, 2023.

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

(c) At March 31, 2012, the Company has letters of guarantee outstanding with various vendors in the amount of $555,000.

12. Income taxes:

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

		March 31, 2012		December 31, 2011
Deferred income tax assets:				
Unused tax losses	$	70	$	70
Deferred revenue		188		1,153
Properties		768		768
Unrealized loss on financial instruments		14		34
		1,040		2,025
Deferred income tax liability:				
Properties	$	(526)	$	(526)
Financing fees		(17)		(17)
		(543)		(543)
Net deferred income tax assets	$	497	$	1,482

13. 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 finance leases, debt on ice rinks, and financial liability held for trading. The carrying values of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities and obligations under finance leases are considered by management to approximate their fair values due to their short-term nature.

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 March 31, 2012.

13. Financial instruments (continued):

(a) Fair value (continued):

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 statement of financial position. At March 31, 2012, the fair value was $47,000 (2011 - $114,000). Changes in the fair value of the instrument are recognized in net earnings. For the three months period ended March 31, 2012, a gain of $67,000 (2011 –$68,000) was recognized.

Financial instruments measured at fair value in the condensed consolidated interim financial statements are categorized according to the basis of their measurement using a fair value hierarchy: Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities; Level 2 - valuation technique using inputs other than quoted prices in Level 1 that are observable for the asset or liability either directly or indirectly; or Level 3 - valuation technique using inputs for the asset or liability that are not based on observable market data. The Company has one financial instrument measured at fair value, being its interest rate swap, which is classified as Level 2 in the fair value hierarchy.

(b) Financial risk management:

(*i*) 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 $66,000 (2011 - $68,000) per annum.

(*ii*) 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 March 31, 2012 consists of customer deposits received in advance of the services being provided.

(*iii*) Credit risk:

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable. Effective monitoring of accounts receivable is a core control procedure of the Company and appropriate provisions are recorded for impaired accounts. The Company does not face any material concentrations of credit risk. The Company's credit risk on cash and cash equivalents is limited as it maintains its holdings with large highly rated financial institutions.

(*iv*) Currency risk:

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currency of the Company, the Canadian dollar. The currency in which these transactions primarily are denominated in is the U.S. dollar. The Company is exposed to the risk of loss depending on the relative movement of this currency against the Canadian dollar. The Company does not currently enter into forward contracts to mitigate this risk.

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

14. Capital risk management:

The Company defines capital that it manages as the sum of cash and cash equivalents, long-term borrowings, and shareholders' equity.

The Company's objectives when managing its capital are:

(a) To safeguard the Company's ability to continue as a going concern so that it can provide services to its customers and continue to reduce debt;

(b) To comply with debt covenants;

(c) To return excess cash to shareholders through payment of dividends; and

(d) To maintain a financial position suitable for supporting the Company's growth strategies and provide an adequate return to shareholders.

The Company executes a planning and budgeting process to determine the funds required to ensure the Company has appropriate liquidity to meets its operating and growth objectives. The Company ensures that there are sufficient credit facilities to meet its current and future business requirements, taking into account its anticipated cash flows from operations and its holding of cash and cash equivalents. The Company complies with covenant criteria established by its lenders. These include tangible net worth and debt coverage ratio measurements. As at March 31, 2012 and December 31, 2011, the Company was in compliance with these covenants. The Company is not subject to any statutory capital requirements, and has not made any changes with respect to its overall capital management strategy during the three months period ended March 31, 2012.

15. Related party transactions:

(a) During the three months ended March 31, 2012, the Company expensed $46,800 (2011 - $26,500) in directors' fees.

(b) The Chairman of the Board of Directors of the Company is a Director, and a Director of the Company is the Chairman of the Board of Directors of a vendor from which the Company purchases services in the normal course of business. Purchases from this vendor for the three months ended March 31, 2012 was $12,400 (2011 - $10,600).

(c) The Company's majority shareholder is Bartrac Investments Ltd. ("Bartrac"). Two of the Company's Directors are also directors of Bartrac. During the three months ended March 31, 2012 and 2011, there were no related party transactions between the Company and Bartrac.

(d) The Company's key management personnel include the Directors of the Company, executive officers and certain members of the senior management group. Key management personnel compensation comprised the following:

	March 31, 2012	March 31, 2011
Short-term employee benefits	$ 434	$ 414
Post employment benefits	14	14
Exercise of stock appreciation rights	20	53
	$ 468	$ 481

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

15. Related party transactions (continued):

(e) Directors and executive officers participate in the Company's stock appreciation rights program (note 8). During the three months ended March 31, 2012, the Company recognized compensation expense of $32,000 (2011 - $45,000) in respect of the program.

16. Segmented information:

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

(a) Ice rink and recreational facilities revenue:

	March 31, 2012	March 31, 2011
Ice sales	$ 16,683	$ 15,837
Restaurant and lounge	3,130	3,294
Sports store	562	519
Management and consulting fees	52	61
Other	721	716
	$ 21,148	$ 20,427

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

(b) Geographic

	March 31, 2012			March 31, 2011		
	Canada	USA	Total	Canada	USA	Total
Revenue	19,568	1,580	21,148	19,506	921	20,427
Net earnings (loss) before tax	3,284	(429)	2,855	2,783	(79)	2,704

	March 31, 2012			December 31, 2011		
	Canada	USA	Total	Canada	USA	Total
Non-current assets	81,172	4,770	85,942	82,638	4,819	87,457
Total assets	94,373	7,356	101,729	96,917	7,823	104,740

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

17. Supplemental cash flow information:

		2012	2011
(a)	Net changes in non-cash working capital:		
	Accounts receivable	$ (171)	$ (192)
	Inventory	188	(24)
	Prepaid expenses	(683)	(911)
	Accounts payable and accrued liabilities	183	1,319
	Deferred revenue and customer deposits	(4,787)	(4,796)
	Effect of change in foreign currency	63	19
		$ (5,207)	$ (4,585)
(b)	Non-cash transactions:		
	Finance lease obligations	$ 262	$ 164

18. Expenses by function:

The Company's condensed consolidated statement of earnings and comprehensive income presents expenses on a mixed basis. IFRS requires a Company to present expenses according to its nature or function. The following information has been provided to disclose the Company's expenses by function:

	2012	2011
Ice rink and recreational facilities expense	$ 16,444	$ 15,815
General and administrative expenses	$ 1,299	$ 1,212
Other expenses (income):	$ (14)	$ 5

The changes in the above table, as compared to the condensed consolidated statement of earnings and comprehensive income, relate to depreciation of $1,355,000 (2011 - $1,281,000) being allocated from other expenses to ice rink and recreational facilities in the amount of $1,313,000 (2011 - $1,246,000) and to general and administrative expenses in the amount of $42,000 (2011 - $35,000).

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

For the Three Months Ended March 31, 2012
As of May 10, 2012

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 March 31, 2012 and the consolidated operating results for the three months ended March 31, 2012 compared to the three months ended March 31, 2011. This document should be read in conjunction with our unaudited condensed consolidated interim financial statements for the period ended March 31, 2012, the accompanying notes, and our audited consolidated financial statements for the years ended December 31, 2011 and December 31, 2010. All dollar amounts included in this MD&A are in Canadian dollars.

We have prepared these condensed consolidated interim financial statements in accordance with International Financial Reporting Standards ('IFRS").

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

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

The date of this MD&A is May 10, 2012.

Forward Looking Statements

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

Executive Overview

First quarter 2012 financial highlights and developments

- Total revenue for the three months ended March 31, 2012 was $21.1 million, an increase of 3.5% over 2011;
- EBITDA of $4.8 million, increased by 1.7% from first quarter 2011, after recording a $0.3 million provision for onerous contracts;
- Net earnings of $1.9 million increased by 1.9%. Earnings per share was $0.14 and earnings per share excluding the provision for onerous contracts was $0.16;
- We ended the period with $11.7 million of cash compared to $7.4 million a year ago.

Overview of the Company

Canlan Ice Sports Corp. is a leading operator of recreational and entertainment facilities. 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 1,000 full 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 20 facilities in Canada and the United States containing 62 full sized ice sheets, and two indoor soccer fields. The Company owns 10 of these facilities containing 1.1 million square feet of space; we operate two facilities under long-term land lease arrangements and a further four facilities under operating leases. We currently manage four facilities on behalf of third party owners from both the private and public sector.

We operate primarily in the sports and recreation segment, with a focus on ice hockey and indoor soccer. Our largest single revenue source within this segment is adult hockey, catering to both men and women operating under the Adult Safe Hockey League (ASHL) brand. Almost 50% of our ice time is used for the ASHL.

Change in facility portfolio from prior year:

Our total facility count did not change during the quarter. The geographic locations of our owned, leased and managed properties, are as follows:

Canada:	Facilities	Surfaces
British Columbia	5	15
Alberta	1	2
Saskatchewan	2	6
Manitoba	1	4
Ontario	6	22
Quebec	1	4
	16	**53**
USA:		
Illinois	1	3
New Jersey	1	2
Indiana	2	4
	4	**9**
	20	**62**

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 $2.05 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, space rental and lease

Selected Financial Information

The following selected consolidated financial information is for the three months ended and as at March 31, 2012, 2011 and 2010. This data should be read together with the unaudited condensed consolidated interim financial statements for the periods ended March 31, 2012, 2011, and 2010.

Our condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards, and are stated in Canadian dollars.

in thousands, except earnings per share (unaudited)

As at and for the three months ended March 31,	**2012**	**2011**	**2010**
Statement of Operations Data:			
Total revenue (1)	**$ 21,148**	$ 20,427	$ 19,844
Direct expenses (2)	**15,131**	14,569	14,041
General & administration expenses	**1,257**	1,177	1,027
EBITDA	**4,760**	**4,681**	**4,776**
Other expenses (3)	**1,905**	1,977	1,912
Earnings before tax	**2,855**	2,704	2,864
Current and deferred tax expense	**988**	872	824
Net earnings and comprehensive income	$ 1,867	$ 1,832	$ 2,040
Basic and fully diluted earnings per share	**$ 0.14**	**$ 0.14**	**$ 0.15**
Balance Sheet Data:			
Cash	**$ 11,723**	$ 7,379	$ 5,666
Current assets (excluding cash)	**4,064**	4,143	4,894
Capital assets and investment properties	**84,385**	88,905	92,332
Other assets	**1,557**	3,029	4,027
Total assets	**$ 101,729**	**$ 103,456**	**$ 106,919**
Current liabilities, excluding debt	**$ 13,229**	$ 13,347	$ 13,981
Mortgage debt	**40,469**	43,750	46,325
Equipment leases	**1,189**	1,461	1,899
Deferred tax liabilities	**543**	677	618
Total liabilities	**$ 55,430**	**$ 59,235**	**$ 62,823**

(1) Total revenue is comprised of all revenue sources – See page 3.
(2) Direct expenses include all operating costs related to the operation of our facilities, excluding depreciation.
(3) Other expenses include depreciation, and finance income & costs.

Review of Operations – Three months ended March 31, 2012

Comparative Results

Total revenue of $21.1 million increased by $0.7 million or 3.5% compared to the prior year. The increase was principally due to a rise in revenue from contract ice rentals, and instructional programs, which were mainly attributable to the addition of Ice Sports Romeoville and pricing.

Total food & beverage revenue of $3.1 million declined by $0.2 million or 5.0% compared to the prior year. The decrease was principally due to the sale of Ice Sports Regina in Q3 of 2011.

Sports store revenue of $0.6 million increased by $43,000 or 8.3%. Canlan operates sports stores in nine facilities that sell equipment, apparel and skate sharpening services.

Also included in revenue is sponsorship, space rental, sales from our tournament division and facility management fees. Revenue from these sources totaled $0.8 million consistent with 2011.

Revenue by business segment:

Three months ended March 31 (in thousands)	**2012**	**2011**	**% change**
Ice and soccer sales	**$16,683**	$15,837	5
Restaurant and lounge	**3,130**	3,294	(5)
Sports store	**562**	519	8
Corporate sponsorship	**191**	189	1
Tournament operations	**94**	90	4
Management and consulting fees	**52**	61	(15)
Other	**436**	437	-
Total revenue	**$21,148**	$20,427	4

Facility expenses include all costs directly related to the operations of our recreation properties. Total direct operating costs of $15.1 million increased by $0.6 million or 3.9% compared to 2011. The year-over-year increase was mainly attributable to annual wage increments, amounting to $0.1 million and a one-time provision for loss on a lease contract of $0.3 million. Excluding this provision, operating costs would have increased by $0.2 million or 1.7%. The provision relates to the facility that Canlan leases in Vineland, New Jersey under a lease agreement with a third party that began in 2008 and will end on December 31, 2012. Due to market conditions, this facility has sustained operating losses since inception and in an effort to mitigate further losses, business operations at Ice Sports Vineland were terminated on March 31, 2012. We will continue to fulfill our lease obligations until the end of the lease and accordingly, a provision of $0.3 million has been recognized at March 31, 2012, to provide for the remaining loss on this contract.

Corporate general and administration costs of $1.3 million increased by $0.1 million or 6.8% compared to 2011. This was principally due to annual wage increments and professional fees. 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 Partnership Solutions division are also included in corporate administration expenses.

EBITDA of $4.8 million increased by $0.1 million or 1.7% from the prior year. Our operating margin excluding the contract provision was 23.9% compared to 22.9% in 2011.

Total interest expense related to our term debt and finance leases totaled $0.7 million compared to $0.8 million a year ago due to continued debt reduction and slightly lower interest rates. After recording finance income of $0.1 million, depreciation of $1.4 million and deferred income tax expense of $1.0 million, net earnings for the quarter of $1.9 million increased by 1.9% from 2011.

Contract Management and Consulting Services

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

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

Earnings by Quarter

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

	2012	2011				2010		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Gross revenue	$ 21,148	$ 20,345	$ 14,843	$ 16,351	$ 20,427	$ 19,991	$ 14,208	$ 15,866
Operating costs	(15,131)	(14,890)	(13,837)	(14,551)	(14,569)	(14,066)	(13,184)	(14,335)
	6,017	5,455	1,006	1,800	5,858	5,925	1,024	1,531
General & administration	(1,257)	(1,014)	(1,004)	(1,076)	(1,177)	(1,319)	(1,152)	(1,066)
EBITDA	**4,760**	**4,441**	**2**	**724**	**4,681**	**4,606**	**(128)**	**465**
Depreciation	(1,355)	(1,273)	(1,311)	(1,285)	(1,281)	(1,275)	(1,254)	(1,215)
Finance costs	(564)	(802)	(691)	(683)	(691)	(690)	(732)	(927)
Other	14	(110)	2,368	29	(5)	33	24	25
Net earnings (loss) before taxes and other	**2,855**	**2,256**	**368**	**(1,215)**	**2,704**	**2,674**	**(2,090)**	**(1,652)**
Income taxes	(988)	(376)	(251)	230	(872)	(1,218)	560	421
Net earnings (loss)	**$ 1,867**	**$ 1,880**	**$ 117**	**$ (985)**	**$ 1,832**	**$ 1,456**	**$ (1,530)**	**$ (1,231)**
Earnings (loss) per share	**$ 0.14**	**$ 0.14**	**$ 0.01**	**$ (0.07)**	**$ 0.14**	**$ 0.11**	**$ (0.11)**	**$ (0.09)**

Review of Assets

The table below summarizes the Company's asset base:

in thousands	**March 31, 2012**	December 31, 2011
Ice rink facilities	**$ 83,721**	$ 84,303
Cash and cash equivalents	**11,723**	13,886
Investment properties	**664**	664
Accounts receivable	**1,888**	1,717
Prepaid expenses and other assets	**1,243**	560
Inventory	**933**	1,121
Deferred income taxes and other	**1,557**	2,489
	$ 101,729	$ 104,740

During the quarter, the Company spent $0.5 million (2011 - $0.1 million) on capital expenditures to improve ice rink facilities. Many of the improvements undertaken in the first quarter relate to building improvements and new ice resurfacing equipment.

A net usage of cash during the period of $2.2 million and a drawdown of the future income tax assets of $985,000 contributed to a net decrease in assets for the quarter.

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, such as insurance and property taxes.

Review of Liabilities

The table below summarizes the Company’s capital structure:

in thousands		**March 31, 2012**		December 31, 2011
Mortgages payable	**$**	**40,469**	$	40,899
Deferred revenue and customer deposits		**6,708**		11,495
Accounts payable		**6,474**		5,984
Capital leases		**1,189**		1,073
Financial liability held for trading		**47**		114
Deferred income taxes		**543**		543
		55,430		60,108
Shareholders' equity		**46,299**		44,632
	$	**101,729**	$	104,740

Total interest bearing debt, which includes mortgages payable and capital leases totaled $41.7 million as at March 31, 2012, a net decrease of $0.3 million from December 31, 2011. This decrease represents a combination of scheduled debt repayments and additional leases to finance ice resurfacing equipment.

Deferred revenue and customer deposits represent customer registration and rental fees received in advance of when ice is actually used.

At March 31, 2012, we had a working capital deficit of $1.0 million compared to a deficit of $3.8 million at December 31, 2011.

Mortgages

Specific terms of the four credit facilities are as follows:

- $30.0 million loan maturing July 15, 2018, fixed interest rate of 6.79% per annum, amortized over 20 years with interest payable monthly and seasonal principal payments of $375,000 per month from September 15 to December 15 annually. The balance of this loan at March 31, 2012 was $25.5 million.

- $9.0 million loan maturing September 30, 2014, variable interest rate of Prime plus 1.25%, amortized over 15 years with blended monthly payments. The Company has entered into an interest rate swap agreement to fix the interest rate on the principal borrowed at a rate of 4.15% per annum, under an agreement expiring on September 30, 2014. The balance of this loan at March 31, 2012 was $8.7 million.

- $5.4 million loan maturing September 30, 2014, variable interest rate of Prime plus 1.25% per annum, amortized over 12 years with blended monthly payments. The Prime rate is currently 3%. The balance of this loan at March 31, 2012 was $4.2 million.

- $2.6 million loan maturing on October 31, 2016, variable interest of LIBOR plus 2.5%, amortized over 15 years with blended monthly payments. The LIBOR rate is currently 0.24%. The balance of this loan at March 31, 2012 was $2.4 million.

In addition, we have available a $5 million revolving credit facility that the Company can use as bridge financing for potential future property acquisitions.

We are in full compliance with all our debt covenants as at March 31, 2012.

Liquidity and Capital Resources

The Company's debt to equity ratio was 0.90:1 at the end of the first quarter, compared to 0.94:1 at December 31, 2011. The ratio has decreased principally due to the increase in equity resulting from net income in the first quarter.

During the first three months of the year, the Company had negative cash flow from operations of $0.7 million (2011 – negative $0.6 million), mainly due to the change in deferred revenue and customer deposits. The majority of our cash is collected in the fourth quarter in the form of customer deposits to secure future ice time.

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

Three months ended March 31
(in thousands)

		2012		2011
EBITDA	**$**	**4,760**	$	4,681
Changes in working capital items		**(5,207)**		(4,585)
Net interest expense		**(622)**		(734)
Other		**328**		(7)
Cash flow from operations	**$**	**(741)**	$	(645)

During the quarter, the Company also used $0.6 million to make scheduled debt and lease repayments, and $0.6 million to purchase capital and other assets.

In addition, the Company made a quarterly dividend payment on January 16, 2012 to common shareholders of record on December 30, 2011. The gross amount of the quarterly dividend is $200,000. Another quarterly dividend was paid on April 17, 2012 to shareholders of record on March 30, 2012.

On May 10, 2012, the Company's Board of Directors approved an increase to the quarterly dividend from $0.015 to $0.02 per common share. The increased dividend will be effective on the next paid date of July 17, 2012 to shareholders of record at the close of business on June 29, 2012.

The Company's cash position at March 31, 2012 was $11.7 million, a decrease of $2.2 million from December 31, 2011, but an increase of $4.3 million from March 31, 2011 due to the proceeds of disposition from the sale of Ice Sports Candiac in December 2011.

Three months ended March 31 (in thousands)		**2012**		2011
Cash used in:				
Operations	**$**	**(741)**	$	(645)
Financing		**(592)**		(456)
Investing		**(567)**		(204)
Foreign currency change		**(63)**		(19)
Dividends paid		**(200)**		(200)
Decrease in cash position	**$**	**(2,163)**	$	(1,524)

Share Capital

Shares issued and outstanding at March 31, 2012 and December 31, 2011	13,337,448
Weighted average number of shares outstanding	**13,337,448**

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

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

As at March 31, 2012, 743,125 stock appreciation rights were outstanding with a weighted average exercise price of $1.82. Approximately 275,000 rights were vested and exercisable. During the first quarter, stock-based compensation expense of $32,000 (2011 – $45,000) related to the SARs plan was recorded.

Transactions with Related Parties

Canlan's controlling shareholder, Bartrac Investments Ltd., owns approximately 10.1 million shares of the Company, or 75% of the outstanding shares.

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

Financial Instruments

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

- Held for trading financial liabilities are measured at the fair value at the balance sheet date with any gain or loss recognized immediately in net income.
  The Company has entered into an interest-rate-swap agreement to fix the interest rate on a portion of its debt on ice rinks. The fair value of the instrument has been presented as a current liability on the balance sheet. At March 31, 2012, the fair value was $47,000 (December 31, 2011 - $114,000). Changes in the fair value of the instrument are recognized in net earnings. For the three months ended March 31, 2012, a gain of $67,000 was recognized as part of finance income.

- Transaction costs that are directly attributable to the issuance of financial assets or liabilities are accounted for as part of the carrying cost at inception and are recognized over the term of assets or liabilities using the effective interest method.

The Company does not have held to maturity investments at March 31, 2012. The Company had no "other comprehensive income or loss" transactions during the three months ended March 31, 2012 and no opening or closing balances for accumulated other comprehensive income or loss.

Critical Accounting Policies and Estimates

Canlan's significant accounting policies are described in Note 4 to the condensed consolidated interim financial statements. The preparation of the consolidated financial statements in conformity with IFRS requires us to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Key sources of estimation uncertainty are the areas where assumptions and estimates have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities. These are:

Revenue recognition

Revenue from ice rink operations is recognized as the product or service is supplied. Deferred revenue relates to amounts received in advance for the Company's 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 the Company's estimates. Any differences are recognized upon completion of the season.

Accounts receivable

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

Recoverability of long-lived assets

The recoverability of the Company's recreational properties is based on future discounted cash flows expected to be generated from such assets. These cash flows are based on management's approved budgets and projections. When appropriate, third-party appraisals will also be used to assess the recoverability of recreational properties.

Useful lives of property, plant and equipment

Property, plant, and equipment are depreciated on a straight-line basis over their estimated useful life. Approximately 80% of the Company's total assets are comprised of recreational properties. The selection method of depreciation and length of the depreciation period could have a material impact on depreciation expense and the net book value of the Company's assets. Assets may become obsolete or require replacement before the end of their estimated useful lives, in which case any remaining unamortized costs would be written off.

Accounting for stock-based compensation

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

Deferred Income Tax

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

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 March 31, 2012.

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 March 31, 2012. 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 March 31, 2012.

Risk Factors

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

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

Leverage and Ability to Service Indebtedness

The Company's level of debt and the limitations imposed on it by its debt agreements could have important consequences, including the following:

- The Company will have to use a significant portion of its cash flow from operations for debt service, rather than for operations.
- The Company may not be able to obtain additional debt financing for future working capital, capital expenditures or other corporate purposes.
- The Company could be more vulnerable to economic downturns and less able to take advantage of significant business opportunities or to react to changes in market or industry conditions.
- The Company's less leveraged competitors could have a competitive advantage.
- The Company's ability to pay the principal and interest on debt obligations will depend on its future performance. To a significant extent, our performance will be subject to general economic, financial and competitive factors. We can provide no assurances that its business will generate cash flow from operations sufficient to pay the Company's indebtedness, fund other liquidity needs or permit the Company to refinance its indebtedness. The Company can provide no assurances that it can secure any further credit facilities or that the terms of any such credit facilities will be favourable.

If the Company has difficulty servicing its debt, the Company may be forced to reduce or delay capital expenditures, seek additional financing, sell assets, restructure or refinance the Company's debt, or seek equity capital. The Company might not be able to implement any of these strategies on satisfactory terms, if at all. The Company's inability to generate sufficient cash flow or refinance its indebtedness would have a material adverse effect on the Company's financial condition, results of operations and ability to satisfy the Company's obligations including the ability to continue with our dividend policy.

Mitigating factors and strategies:

- The Company manages its capital with the objectives of maintaining a financial position suitable for servicing debt in accordance with repayment schedules, complying with debt covenants, and supporting our growth strategies.
- The Company maintains good relationships with its lenders through regular communications' and reporting.

Incurrence of Debt and the Granting of Security Interests

From time to time, the Company may enter into transactions and these transactions may be financed partially or wholly with short or long term debt, which may increase the Company's debt levels above industry standards and may require the Company to grant security interests in favour of third parties. The Company's articles do not limit the amount of indebtedness that the Company may incur or its ability to grant security interests. Should the Company default on any of its obligations under any secured credit facility, this could result in seizure of the Company's assets. The level of the Company's indebtedness from time to time could impair our ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Mitigating factors and strategies:

- The Company manages its capital with the objectives of maintaining a financial position suitable for servicing debt in accordance with repayment schedules, complying with debt covenants, and supporting our growth strategies.

Insurance

The Company develops and organizes hockey leagues to play at the facilities it owns and operates. Due to the nature of the sport, injuries can occur. We purchase liability and accident insurance, the cost of which is dependent upon the history of the number of injury claims and the quantum of such claims. There is always a risk that the cost of acquiring sufficient insurance to cover any such injury claims will become prohibitive or that such insurance will become unavailable. The Company has obtained insurance coverage that it believes would ordinarily be maintained by an operator of facilities similar to that of the Company. The Company's insurance is subject to various limits and exclusions. Damage or destruction to any of our facilities or lawsuits arising from use of such facilities could result in claims that are excluded by, or exceed the limits of, the Company's insurance coverage.

Mitigating factors and strategies:

- Company maintains its facilities to appropriate standards and continually monitors league activities and enforces a strict set of rules.
- Company has developed risk management procedures and emergency preparedness guides at all of its locations.
- Management works closely with insurance providers.

U.S. Operations

The Company's expansion strategies include certain markets in the U.S. As such, the Company faces the risks of operating in new markets where the demographics, consumer preferences, and economic conditions can be very different from Canadian markets in which the Company primarily operates. Should market conditions of new U.S. locations vary significantly from what was anticipated, the Company's financial results could be adversely affected.

In addition, The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Company, the Canadian dollar. The currency in which these transactions are denominated is the U.S. dollar. The Company is exposed to the risk of loss depending on the relative movement of this currency against the Canadian dollar. The Company does not currently enter into forward contracts to mitigate this risk.

Mitigating factors and strategies:

- The Company performs due diligence to evaluate the structural condition of facilities, and conditions that support supply and demand in the marketplace.
- Management closely monitors the Canadian-US foreign exchange rate and could utilize hedging instruments if necessary. In addition, a reasonable amount of US currency is maintained on hand to meet operating needs.
- Long-term assets in the U.S. are financed with loans denominated in U.S. currency.

Seasonality of operations

The Company's business cycle is highly seasonal with 56% of total revenues and virtually all of the operating profit being generated in the first and last quarter. This seasonality of operations impacts reported quarterly earnings. The operating result for any particular quarter is not necessarily a good indicator of operating results for the other fiscal quarters or the entire fiscal year. As a result of the seasonality, the highest cash flow period for the Company is in the fourth quarter when customer deposits for future ice contracts are received, and the lowest cash flow is in the summer months, when traffic is reduced.

Mitigating factors and strategies:

- Various programs are developed to increase traffic during the summer period.
- Variable operating costs are reduced during the summer period.
- Certain term debt and finance lease carry seasonal repayment schedules.

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.

Employee and Union Relations

The Company has unionized employees at four of its facilities. The presence of a unionized work force increases the possibility that a labour dispute will effect operations at a facility. The collective agreements with unionized employees at the three of the facilities will expire between October 2013 and February 2015. Negotiations to renew the fourth collective bargaining agreement are in progress. The Company may not be able to negotiate a new contract on favorable terms, which could result in increased operating costs as a result of higher wages or benefits paid to its unionized workers. If unionized workers engage in a strike or other work stoppage, the Company could experience a significant disruption in its operations or higher ongoing labour costs, which could have material adverse effects on the business, financial condition, results of operations and cash flows.

Mitigating factors and strategies:

- The Company maintains positive relationships with the unions and management and union representatives have bargained in good faith.
- The Company garners assistance and guidance from professional labour consultants where needed.

Key Personnel

The Company's future success depends, to a large extent, on the efforts and abilities of its executive officers. As the Company's ability to retain these executive officers is important to its success and growth, the loss of its executive officers could adversely affect the Company's business, financial condition, cash flows and results of operations.

Mitigating factors and strategies:

- The Company has established compensation policies for its executive officers that are commensurate with their responsibilities and with market conditions.
- The Company maintains an open and candid working environment where executive officers can offer input into business strategies and decisions.

Utility Costs

As electricity, natural gas and water are significant components of operating costs of our facilities, it is susceptible to fluctuations in the market price of energy. If the Company experiences any power fluctuations or outages or cannot maintain adequate sources of natural gas and water, this may have a material adverse effect on the Company's business, financial conditions, results of operations and cash flows.

Mitigating factors and strategies:

- The Company enters into medium-term energy contracts to mitigate the price fluctuations of gas and electricity.

Interest Rate Risk

Debt of $6.6 million is subject to variable interest rates. For every 1% change in the prime rate, interest expense will change by $66,000 per annum.

Mitigating factors and strategies:

- The Company has fixed the interest rate on 84% of its mortgage debt, which totals $34.2 million

Control by Principal Shareholders

The principal shareholder, Bartrac Investments Ltd. holds 10,075,947 Common Shares and controls approximately 75% of the aggregate voting power of the Corporation, which will allow it to control substantially all the actions taken by the shareholders of the Company, including the election of the directors. Such concentration of ownership could also have the effect of delaying, deterring, or preventing a change of control of the Company that might otherwise be beneficial to its shareholders and may also discourage acquisition bids for the Company and limit the amount certain investors may be willing to pay for the Common Shares.

Michael F. Gellard
Senior Vice-President
Chief Financial Officer