Canlan Ice Sports Corp.
2008 Annual Report

Celebrating 10 years

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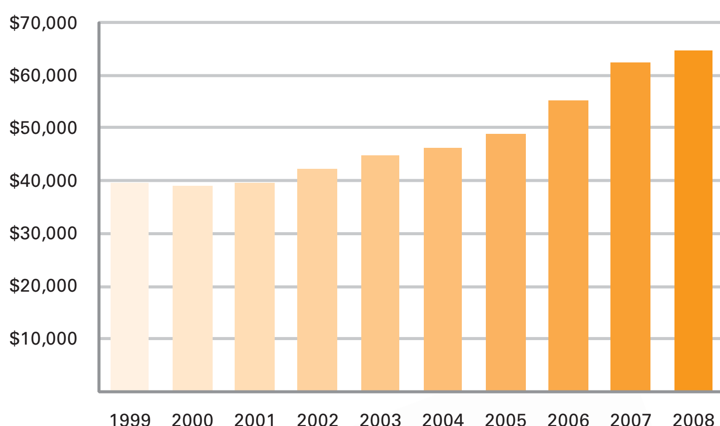
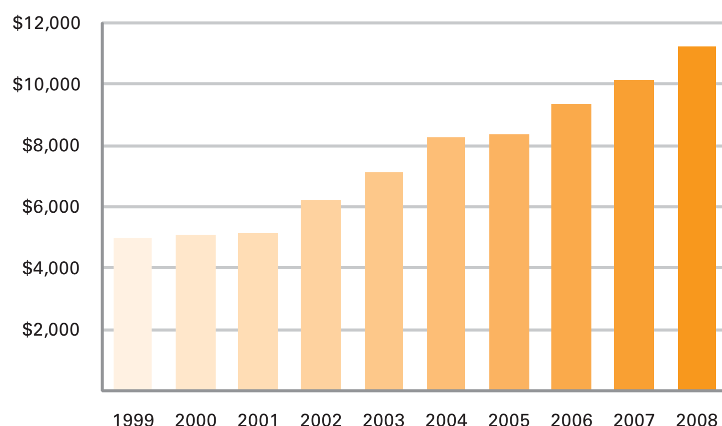
Financial Highlights

In thousands, except per share information	2008	2007	2006
Revenue	$64,669	$62,539	$55,231
Earnings before interest, taxes, amortization (EBITA)	$11,236	$10,157	$9,349
Net earnings before tax	$2,149	$1,566	$1,165
Net earnings	$3,827	$806	$1,354
Earnings per common share	$0.29	$0.06	$0.10
Shareholders' equity	$43,439	$39,612	$38,806
Shareholders' equity per common share	$3.26	$2.96	$2.90
Number of common shares outstanding	13,337	13,337	13,337

Ten Year Revenue Trend
(in thousands)



Ten Year EBITA Trend
(in thousands)



Ice Revenue 72%

Food & Beverage 19%

Management Fees, Consulting & Other 6%

Sports Store 3%

Message to Shareholders

Since implementing a new strategic direction in 1998 that saw our transition from being a real estate company with investments in ice rinks to becoming an operating company dedicated to the ownership and operation of multi-purpose recreational facilities, targeted growth has become a cornerstone of our performance. Our 2008 operating results were not only consistent with this trend, but established new benchmarks for Canlan's revenue and earnings performance as well as for the number of registered players in our branded programs, employee retention and customer service. These positive developments strengthen Canlan's already solid foundation and position us for continued success.

Our overall revenue increased to $64.7 million in 2008, representing a 3.4% increase, while on a same store basis we saw revenue grow by 5.5%, despite the global economic downturn that began to take shape in the latter part of the year. We reported $11.2 million in earnings before interest, taxes and amortization (EBITA), an increase of $1.0 million (10%) over prior year. In 2008, net earnings after tax was $3.8 million or $0.29 per share on a post share consolidated basis.

Our growth in sales and earnings is a result of our continued commitment to providing the highest quality products and services to our loyal customer base. This is a commitment that is shared by everyone throughout the organization, and forms the core of our customer service philosophy. Our Adult Safe Hockey League (ASHL), grew by 8,000 members bringing our membership count to well over 63,000 for both the winter and summer seasons combined.

Our newly developed Adult Safe Hockey Network (ASHN) met our objectives by adding 52 tournament qualifying series events and gaining access to more than 15,000 new adult recreational hockey players. As a result of this increase in participants, our ASHN internet traffic has increased to over 1.6 million page views per month as we continue to develop new and exciting ways to enhance each adult recreational hockey player's online experience. Our youth programs are also a major area of focus in our efforts to continue to ensure growth, particularly in the slower summer season. In 2008, we had more than 40,000 youth participants registered in our Hockey Leagues and Programs across Canada and the United States.

This track record of organic growth enabled us to realize one of our most successful achievements for the year: refinancing our entire term debt, before the credit freeze took hold. A significant component of the refinancing features seasonal principal payments and a ten-year term. This key transaction provides the basis for future growth and success.

In accordance with our strategic plan, we made good progress in a number of other key areas. We added a new 2-pad facility, via leasing, to our portfolio located in Vineland, New Jersey. We accomplished a number of key administration and customer service objectives with the installation of our new Customer Relationship Management software in all of our facilities. Our efforts to continually improve human resources management enabled us to reduce employee turnover by 15% in 2008. Finally, our focus on energy management, enabled us to reduce same store energy consumption by 1.5%.

By executing against our strategic plan and delivering on our objectives, Canlan is developing a reputation for our successful business operations – one that mirrors the well-regarded on-ice experience we provide.

While 2008 was a year of record growth, 2009 may come with some challenges. Some regard the recreation industry to be recession resistant and historical trends in many sports and recreation segments have proven that to be true. However, we will not allow ourselves to rest on that information alone to sustain our business through these times. We have established a number of key initiatives to ensure that we protect market share, gross margins and our cash position, but will not change our core operating philosophy or principles while continuing to take the necessary steps to ensure that Canlan remains strong through to the end of this economic downturn. We will continue to find ways to enhance each customer's experience as we undertake a full review of our current strategic plan, ensuring that we remain on course.

As always, we want to acknowledge and thank our employees for their commitment to our goals and success and in particular our retiring President & CEO, Grant Ballantyne, for his 10 years of dedicated service. In addition, I want to thank our shareholders and financial partners for their continued support. We are committed to Canlan's continued growth in the coming years.

Joey St. Aubin
President & CEO

Facility Locations

"By executing against our strategic plan and delivering on our objectives, Canlan is developing a reputation for our successful business operations – one that mirrors the well-regarded on-ice experience we provide."

BRITISH COLUMBIA

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

ALBERTA

2
River Cree Twin Rinks (Edmonton), 2-Rink Complex

SASKATCHEWAN

3
Canlan Ice Sports Jemini(Saskatoon), 4-Rink Complex
Canlan Ice Sports Agriplace(Saskatoon), 2-Rink Complex
Canlan Ice Sports Regina, 2-Rink Complex

MANITOBA

4
Canlan Ice Sports Winnipeg, 4-Rink Complex

MICHIGAN

5
Monroe Multi Sports Complex, 2-Rink Complex

ONTARIO

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

QUEBEC

7
Canlan Ice Sports Les 4 Glaces (Brossard), 4-Rink Complex
Canlan Ice Sports Les 2 Glaces(Candiac), 2-Rink Complex

NEW BRUNSWICK

8
Campbellton Memorial Civic Centre, 2-Rink Complex

NEW JERSEY

9
Canlan Ice Sports Vineland, 2-Rink Complex

Management Discussion & Analysis

The following management discussion and analysis (MD&A) summarizes significant factors affecting the consolidated operating results and financial condition of Canlan Ice Sports Corp. ("Canlan", "the Company", "we" "our" or "us") for the years ended December 31, 2008 and 2007. This document should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2008 and 2007 and accompanying notes. The results reported herein have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are presented in Canadian dollars.

In the following discussion, 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.

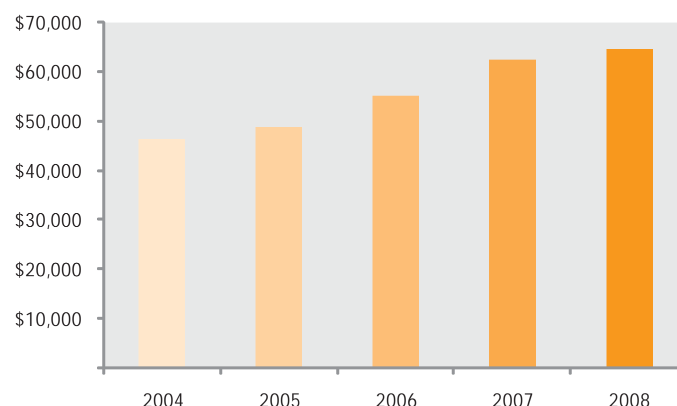
The date of this MD&A is March 25, 2009.

Overall Performance

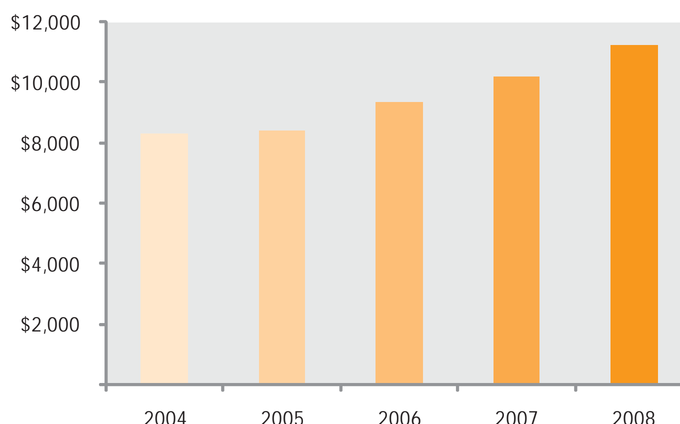
2008 financial highlights:

- We generated $64.7 million in gross revenue (2007 - $62.5 million), an increase of $2.2 million or 3.5%.
- We recorded earnings before interest, taxes, amortization, and a loss held for trading of $11.2 million (2007 - $10.2 million), an increase of $1 million, or 10%.
- We recorded net earnings before tax of $2.1 million (2007 $1.6 million).
- We recorded net earnings of $3.8 million, (2007 $0.8 million), or $0.29 per share, (2007 $0.06 per share) on a post consolidated basis.
- We spent $2.2 million on capital improvements on our owned and leased (2007 - $2.0 million) facilities.

5 Year Revenue Trend



5 Year EBITA Trend



Other significant transactions in 2008:

- On January 1, 2008 the Company entered into a lease agreement with Centre Sportif Candiac to lease to them our two rink facility located in Candiac, Quebec. The five year lease calls for semi annual payments of $162 thousand and gives the lessee the option to purchase the property for $4.5 million at the end of the five year term.

- On July 31, 2008 we completed the refinancing of all our outstanding term debt ($50 million) under favourable repayments terms.

- On September 1, 2008 we entered into a four year lease to operate a two rink facility located in Vineland, New Jersey. The agreement contains an option to purchase the facility at the end of the lease.

Management Discussion & Analysis

- On December 2, 2008 we consolidated our outstanding shares on a 20 for 1 basis and we now have 13.3 million shares outstanding.

- On December 31, 2008 Grant Ballantyne, Canlan's CEO and President retired and was succeeded by Joey St. Aubin. Mr. Ballantyne remains as a member of our Board of Directors, and was appointed Chairman, effective January 1, 2009.

Business of the Company

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

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

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 three facilities under operating leases. We currently manage six facilities on behalf of third party owners from both the private and public sector.

Change in facility portfolio from prior year:

- During the year the Company entered into an agreement to lease a two-pad facility located in Vineland, New Jersey. The lease expires on December 31, 2012 and contains an option to purchase at a pre- determined fixed price of $3.8 million (USD).

- In the first quarter of 2008 a management contract located in Ontario was terminated prior to its contract term.

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

	Number of Facilities	Number of playing Surfaces
2008	22	65
2007	22	64
2006	22	64
2005	20	55
2004	19	54

	Number of Facilities	Number of playing Surfaces
Canada:		
British Columbia	6	17
Alberta	1	2
Saskatchewan	3	8
Manitoba	1	4
Ontario	6	22
Quebec	2	6
New Brunswick	1	2
	20	61
USA:		
Michigan	1	2
New Jersey	1	2
	2	4
TOTAL	**22**	**65**

We are a publicly traded Canadian Company with shares listed on the Toronto Stock Exchange (TSX) under the trading symbol ICE. Canlan's shares were first listed for trading on the TSX on March 1, 1990, prior to that date our shares traded on the Vancouver Stock Exchange.

Management Discussion & Analysis

As a result of a share consolidation effective December 2, 2008, there are 13,337,448 shares outstanding that have recently traded in the $0.80 to $1.00 range. All share and per share amounts in this document reflect the stock consolidation on a retrospective basis. The Company has not issued any shares since November 2004.

The Company derives revenue from six primary sources:

- Ice sales and internal programming
- Food and beverage
- Sports stores
- Tournaments
- Management & consulting
- Other

Vision, Core Business and Strategy

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

We have developed a five-year strategic plan that focused on the growth of the Company. The plan was developed by the senior executives of the Company and contains a number of targets, including the following:

- Acquisition of facilities in select key markets.
  - *We added a two pad facility to our portfolio.*
- Continue to focus on providing management services in select key markets.
  - *We did undertake consulting engagements, but by choice, we did not add any new management contracts during the year.*
- *Organic growth in total sales of 5% per annum.*
  - *We grew our revenue by 5.5%, on a same store basis.*
- Increase sponsorship and advertising revenue.
  - *While we did not grow our sponsorship revenue during the year; we did however hire a sponsorship manager who will focus on increasing this type of revenue in 2009.*
- Install CRM (Customer Relationship Management) software
  - *We have installed new CRM software in all our facilities.*
- Reduce employee turnover.
  - *We have reduced employee turnover by 15%.*
- Reduce operating costs, including a focus on decreasing energy consumption.
  - *We improved our operating profit margin in 2008.*

The Marketplace and Our Competition

Canlan's current marketplace is recreation, and we understand that we are competing for disposable dollars with other sports and activities that can have significantly lower participation costs. While our largest customer segment is currently adult hockey players, we are fully aware that our customers of the future are today's children. We foresee healthy living lifestyles where children will have access to a variety of recreational activities, including hockey, figure skating and soccer.

Canlan's largest competition is from municipalities. Many municipalities in Canada have an aging infrastructure that will need to be replaced with larger multi-use facilities. The federal government has announced plans to provide funds for infrastructure replacement and upgrades as part of their economic revitalization package. They have announced that up to $500 million will be made available to municipal governments for redevelopment of recreational facilities, including ice rinks.

Canlan Ice Sports continues to explore the opportunities as the demand for public/private partnerships is expected to increase.

Management Discussion & Analysis

Competitive Strengths

The Company believes that it has the following competitive advantages:

Our Employees. Canlan currently has over 950 full and part time dedicated employees. Through training and internal communications, we have established Canlan as the place to work in our industry and we attract the most talented people in the industry. Our employees are focused on providing quality customer service and a safe environment.

National coverage. Canlan currently owns and operates facilities in seven provinces in Canada and two U.S. states giving us broad geographic coverage.

Adult Safe Hockey League (ASHL). The Company operates the largest and most well established adult hockey league in North America. The ASHL is a full service adult league that operates in both the winter and summer months and has over 63,000 players registered in various divisions based on skill and age.

Executive team. Canlan's executive team is comprised of nine individuals who are members of the management committee. This group meets regularly to review past and present performance, as well as continually assessing future growth strategies. These individuals have extensive expertise in operations, marketing, finance & accounting and human resources and combined have over 80 years of industry experience.

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

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

Selected Financial Information

The following selected consolidated financial information as at December 31, 2008, 2007 and 2006 and each of the years then ended has been derived from our audited consolidated financial statements. This data should be read together with those financial statements.

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

in thousands, excpet per share data **Year ended December 31,**	**2008**	**2007**	**2006**
Statement of Operations Data:			
Revenue (1)	$64,669	$62,539	$55,231
Direct expenses (2)	(49,768)	(48,856)	(43,107)
General & administration expenses	(3,665)	(3,526)	(2,775)
EBITA	11,236	10,157	9,349
Other expenses (3)	(7,409)	(9,351)	(7,995)
Net earnings	$3,827	$806	$1,354
Net earnings per share – Basic and fully diluted	$0.29	$0.06	$0.10
Balance Sheet Data:			
Current assets (including cash)	$14,025	$8,805	$10,330
Capital assets	98,993	99,902	101,320
Other assets	1,696	850	553
Total assets	$114,714	$109,557	$112,203
Current liabilities, excluding debt	$16,691	$15,915	$15,680
Financial liability held for trading	933	-	-
Mortgage debt	49,105	50,264	53,195
Equipment leases	1,639	1,116	872
Preferred shares (classified as debt)	1,400	2,650	3,650
Future income tax liability	1,507	-	-
Total liabilities	$71,275	$69,945	$73,397

(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, excluding amortization.

(3) Other expenses include amortization, interest, unrealized loss on held for trading financial instruments and taxes

Management Discussion & Analysis

Review of Fiscal 2008 Operations

Revenue

Total revenue increased by $2.1 million or 3.4% to $64.7 million compared to $62.5 million in 2007.

As reported earlier, we have leased out a two pad facility located in Candiac Quebec, effective January 1, 2008. As a result we are no longer recording operating revenue from the Candiac facility which totaled $1.7 million in 2007. We are however recording lease revenue totaling $325,000 per annum, with no related operating costs.

On a same store basis, we increased our revenue by 5.5%, which was primarily due to the continued growth of the Adult Safe Hockey League.

The majority of the Company's revenue is generated from ice sales and in-house programs. In 2008, 72% of the Company's total revenue, or $46.8 million, was generated from on ice activities compared to $44.9 million in 2007, which also represents 72% of our total revenue.

The Adult Safe Hockey League

Our largest and most successful program is the Adult Safe Hockey League ("ASHL"). The ASHL operates in two seasons, the fall/winter season which is from September to April and the spring/summer league which operates from May to August each year. In 2008, the ASHL generated $21.5 million in total registration revenue which represents 46% of our total ice sales. (2007: $19.4 million, 43% of ice sales). Our growth in ice sales in 2008 was primarily due to the growth in ASHL registration revenue. The growth can be attributed to an increase in the number of teams registered even though we did not add any new facilities during the year that would impact team counts. In addition to increased registrations, we did increase registration fees to keep in line with operating costs.

This premium adult league continues to grow in all of our Canadian markets. The ASHL is a full service adult recreational league for both men and women with a variety of divisions based on age and/or skill level. Services provided include scheduling, officiating, statistics, accident insurance, prizing and various levels of championship play including the bi-annual North American Championship. The league is an integral part of our business and generated 33% of the Company's total revenue in 2008, compared to 31% in 2007.

The total number of adult hockey players registered in our winter and summer leagues are estimated to be 63,000. Many of our players play in both seasonal leagues.

The Youth Hockey League and 3 on 3

In addition to the ASHL, Canlan also operates a variety of youth leagues in the spring and summer season, after minor hockey ends in April. These leagues are designed for minor hockey aged players who wish to continue to play after the minor hockey season ends. We offer both the traditional "5 on 5" formats through the Youth Hockey League, as well as a "3 on 3" league for those players looking for something a little different.

In 2008 we had 11,600 players registered in five different age categories. These leagues generated $2.6 million in gross revenue, which is 5.5% of our total ice sales, similar to 2007.

Camp Canlan, Hockey and Skating Academies

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

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

In 2008 we had 21,900 participants in these programs and generated $3.9 million in gross revenue, which is 8.4% of our total ice sales.

Other Ice Revenue

After providing the necessary allocation of ice times to operate our own in house programs we rent ice to third parties. Contract users are required to sign seasonal contracts for the fall/winter and spring/summer seasons and are charged a fixed hourly rate. The ice time is used by private groups, minor hockey associations, third party tournaments and camps as well as some adult leagues. Overall, third party contracts accounted for 28% of our total ice sales in 2008, or $13.2 million. As our in house programs develop and require more ice time we expect revenue from contract users to decrease to approximately 25% of our total ice sales.

Indoor Soccer

Canlan operates two indoor soccer facilities, one in Burnaby built in 2000, and a second field in Winnipeg, built in 2006. Our approach to increasing the utilization of these synthetic turf fields is similar to how we approach the ASHL. We have developed successful indoor soccer leagues at both locations that consume all evening times. The Canlan Indoor Soccer League ("CISL") has over 1,700 players registered and the league operates in two separate seasons during the year, with a similar business plan as the ASHL. In addition, we work with local soccer associations in Burnaby and Winnipeg to develop training programs for their members.

Revenue from our two indoor soccer facilities continues to grow; in 2008 we generated $1.1 million in total revenue from these fields, compared to $.9 million in 2007, a 22% increase.

Food & Beverage

Revenue from our 13 restaurant operations was $12.2 million in 2008, a slight increase over 2007. Food and beverage sales accounted for 19% of total revenue, consistent with prior years. We operate all our restaurants in house to ensure our customers receive quality products and service. The product mix between food sales and liquor sales has been consistent over the years, which is 55% and 45% respectively.

Sports Stores

During the year, Canlan operated ten sports stores that occupy approximately 6,600 square feet in our buildings. The Company rents to third party store operators under long term leases in another four facilities. Our sports stores generated $1.9 million in gross sales in 2008 compared to $2.2 million in 2007. Sports store revenue represents 3% of our total revenue. Skate sharpening revenue was $510,000 compared to $472,000 in 2007

Management Contracts

Management services revenue is comprised of fees for managing ice rink facilities on behalf of owners and one-time consulting engagements. Our management services division generated consulting and management fee revenue in 2008 totaling $347,000, compared to $395,000 in 2007. Currently we have six active management contracts, one less than in 2007.

Tournament Operations

In 2001 Canlan formed Canlan Classic Tournaments (CCT), as an operating division of the Company. It was formed to grow our in-house tournament business in the seasonally slow summer months, and reduce our reliance on third party tournament operators. This division continues to grow, and in 2008 held 38 events and generated $1.1 million in total revenue, compared to $1 million in 2007. While the majority of the CCT events are held in Canlan facilities which increase our own ice utilization, and contribute to food & beverage and sports store sales, the division is diversifying and holds a number of events outside our buildings, including Las Vegas.

Other Revenue

Other sources of revenue totaled $2.2 million in 2008 compared to $2.0 million in 2007. The most significant components of other revenue include space rental, vending, sponsorship and interest income.

Management Discussion & Analysis

Revenue by business segment and geographic region

in thousands	2008 Sales	2008 %	2007 Sales	2007 %
Ice Sales & Soccer	$46,800	72.37%	$44,889	71.78%
Restaurant and Lounge	12,199	18.86%	12,090	19.33%
Sports Store	1,897	2.93%	2,179	3.48%
Tournament Division	1,147	1.77%	1,020	1.63%
Management fees & consulting	347	0.54%	395	0.63%
Other	2,279	3.52%	1,966	3.14%
	$64,669	100.00%	$62,539	100.00%
Canada:				
British Columbia	$16,560	25.61%	$15,455	24.71%
Alberta	68	0.11%	65	0.10%
Saskatchewan	6,429	9.94%	6,037	9.65%
Manitoba	3,713	5.74%	3,425	5.48%
Ontario	32,356	50.03%	31,287	50.03%
Quebec	5,282	8.17%	6,143	9.82%
New Brunswick	75	0.12%	75	0.12%
	64,483	99.71%	62,487	99.92%
USA	186	0.29%	52	0.08%
	$64,669	100.00%	$62,539	100.00%

Revenue by Quarter

The Company recorded the following revenue by quarter in 2008. The revenue stream is seasonal with 58% of the Company's revenue being generated in the fall and winter months (first and fourth quarters) and 42% in the spring and summer season (second and third quarters).

in thousands	2008	%	2007	%
Q1	$18,887	29%	$18,396	29%
Q2	13,877	22%	13,096	21%
Q3	12,921	20%	12,308	20%
Q4	18,984	29%	18,739	30%
	$64,669	100%	$62,539	100%

Direct Operating Costs

Total ice rink operating costs were $49.8 million in 2008 compared to $48.9 million in 2007, an increase of 1.8%.

In 2008 ice rink operating costs, including cost of goods sold in our restaurants and sports stores represented 77% of revenue, compared to 78% in 2007.

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

in thousands	2008	%	2007	%
Q1	$12,734	25%	$12,454	26%
Q2	12,263	25%	11,776	24%
Q3	11,411	23%	11,259	23%
Q4	13,360	27%	13,367	27%
	$49,768	100%	$48,856	100%

Our five largest operating expenses, excluding corporate G & A expenses are as follows:

in thousands	2008	2007
Wages	$17,047	$15,909
Utilities	5,775	5,777
League operating costs	5,742	5,297
Repairs and maintenance	2,857	2,735
Property taxes	2,421	2,478
	$33,842	$32,196

Wages

We continually monitor labour rates in the various jurisdictions we operate in to stay competitive. We increased the rates in 2008 to attract new employees and increase retention in order to reduce the cost of employee turn over. Four of our facilities are subject to collective agreements with two different unions.

Utilities

Utility expenses include the cost of electricity, gas and water. As a result of entering into long term purchase contracts when possible, we have been successful in controlling the cost of electricity and gas. In addition to using purchase contracts, we are also focused on reducing consumption by utilizing new technology and tapping into grants when available.

With the help of BC Hydro we have hired a full time Director of Energy Management whose primary responsibility will be to reduce energy consumption and manage capital assets. We expect to see the benefits of this new position in 2009.

League Operating Costs

Our league operating costs are variable and are directly related to increased volume in the ASHL. League expenses include the cost of officiating, accident insurance, statistics and prizing. Variable league operating expenses generally are 27% of registration revenue.

Repairs and Maintenance

In 2008, we spent $2.9 million maintaining our buildings and equipment, compared to $2.7 million in 2007. This includes maintaining our fleet of ice resurfacers, refrigeration equipment, building envelopes and parking lots. We use a computerized facility asset management system to ensure our preventative maintenance program is kept current and to aid in planning future capital projects.

Property Taxes

Canlan pays property tax in various different jurisdictions in which our sixteen owned and leased buildings are situated. In 2008 we paid $2.4 million to local municipalities on account of property taxes. This amount has decreased slightly from 2007. Property tax assessments are reviewed annually to ensure our properties are taxed appropriately.

Gross Margin

Gross margin is calculated as revenue less operating expenses expressed as a percentage of revenue. Gross margin for 2008 was 23%, a slight improve from 2007 which was 22%.

General and Administration Expenses

Corporate general and administration (G&A) expenses were $3.7 million in 2008, compared to $3.5 million in 2007, representing an increase of $0.2 million, or 6%. This represents 5.6% of total revenue in 2008, unchanged from 2007. Wages and related benefits accounted for 62% ($2.3 million) of our corporate general and administration expenses in 2008 compared to 66% ($2.3 million) in 2007.

Corporate wage expense includes the recording of the stock appreciations rights (SAR) which was established in 2006 and made available to the Company's executives and directors. As a result of the SARs being "out of the money" at December 31, 2008, we reversed the 2007 accrual (less amount redeemed), which resulted in a $275,000 recovery in 2008, compared to an expense in 2007 of $283,000. This amount has been credited to G & A expenses. Excluding the effects of the SARs program in 2008 and 2007 our G&A expenses increased by $0.7 million, or 20%, primarily due to increased compensation costs and a one time retirement allowance for our outgoing president.

The Company is liable for Provincial Capital taxes in Quebec, Ontario and Manitoba which are estimated to be $230,000 for 2008, unchanged from the prior year. These amounts are also included in general and administration expenses.

Other expenses included in G&A are as follows:

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

EBITA

After accounting for ice rink operating costs of $49.8 million (2007: $48.9 million) and general and administrative expenses of $3.7 million (2007: $3.5 million) we increased our Earnings before Interest, Taxes and Amortization (EBITA) and loss on held for trading liabilities to $11.2 million, an increase of $1 million over 2007, representing a 10% increase.

A significant portion of the year over year improvement in operating earnings can be attributed to continued success of the ASHL. ASHL revenue increased by $2.1 million, and with a reasonably low variable expense ratio, this revenue translates into significant EBITA..

EBITA by Quarter

The Company recorded the following EBITA by quarter in 2008 and 2007:

in thousands	2008	%	2007	%
Q1	$5,332	47%	$5,044	50%
Q2	738	7%	384	4%
Q3	608	5%	245	2%
Q4	4,558	41%	4,484	44%
	$11,236	100%	$10,157	100%

As demonstrated by the table above, and consistent with our quarterly revenue stream, our industry is extremely seasonal. The Company generates the vast majority of its operating profit during the fall and winter seasons (first and fourth quarters) that produce 58% (2007 - 59%) of our total revenue. This seasonality contributes to quarterly variability of our earnings because a significant portion of our operating costs are relatively fixed.

Review of 2008 Non-operating Expenses

Amortization

Amortization expense was $4.3 million in 2008 relatively unchanged from 2007 as there were no additions to our facility portfolio during the year.

The Company's amortization policy was unchanged during the year. The policy calls for straight-line amortization of ice rink assets over periods ranging from five years to 40 years.

Interest Expense

Interest expense related to the financing of our facilities, equipment leases and a seasonal credit line decreased to $3.9 million from $4.4 million in 2007, as a result of scheduled principal reductions and preferred share redemptions in addition to a lower interest rate on the variable portion of our mortgage debt.

As a result of the refinancing, which had an effective date of August 1, 2008; guarantee fees are no longer payable.

A breakdown of our interest expense is as follows:

in thousands	2008	2007
Mortgage interest	$3,086	$3,302
Equipment lease interest	97	87
Dividend on preferred shares	318	397
Guarantee fees	172	300
Interest on seasonal credit facility	43	124
Amortization of deferred financing costs	228	230
	$3,944	$4,440

The preferred shares issued as part of the financing of the York acquisition in 2006 include a 12% dividend, paid quarterly, which is recorded as interest expense, pursuant to CICA accounting standards.

At year end, the Company had interest bearing, mortgage secured debt totaling $49.6 million (2007 – $50.5 million), in addition to preferred shares totaling $1.4 million (2007 - $2.7 million) which have a 12% dividend. The remaining balance of the preferred shares will be redeemed on October 31, 2009.

The Company has fixed the interest rate on 86% of its mortgage debt, or $42.8 million at a weighted average rate of 6.74%. The remaining debt, totaling $6.9 million has a variable interest rate of prime plus 1.25%.

Costs related to debt financing are amortized using the effective interest rate method in accordance with GAAP and classified as interest expense. In 2008 this amounted to $228,000 compared to $230,000 in 2007.

Loss on Held-for-trading Financial Liabilities

As part of the $50 million refinancing that was completed on July 31, 2008 the Company entered into an interest rate swap to fix the interest rate on $13 million of the loan for a term of three years. The accounting for this interest rate swap is subject to rules for financial instruments pursuant to section 3855 of the CICA handbook. The fair value of this instrument of $933,000 has been presented as a current liability. The expense, although unrealized, has been fully recognized in the current year.

Net Earnings before Income Taxes

Net earnings before income taxes were $2.1 million in 2008 compared to $1.6 million in 2007, a $0.5 million improvement. The 2008 net earnings results include a $0.9 million provision for unrealized losses related to the interest rate swap described above.

Taxes

In 2008, Canlan adjusted its future income tax asset to reflect the various tax pools still available to offset future income taxes. We do not anticipate paying income taxes in 2009 and perhaps 2010 as a result of utilizing these tax pools related to tax loss carry forwards, capital cost allowance and cumulative eligible capital. Similar to the prior year, the Company has recorded a future tax benefit as we have determined that the Company will benefit from its non-capital loss carry forwards and available tax pools in 2009 and beyond. The expected future net tax benefit from utilizing these available tax pools has been increased to $3.1 on a net basis. This increase in the available tax pools resulted in a future tax expense recovery of $1.7 million for the year ended December 31, 2008, compared to a tax expense in 2007 of $0.8 million, a net change of $2.5 million.

Net Earnings

Net earnings after tax for the year ended December 31, 2008 was $3.8 million or $0.29 per share, compared to net earnings of $.8 million in 2007 or $0.06 per share.

Management Discussion & Analysis

Summary of Operations

in thousands	2008	2007	2006
Revenue			
Ice rinks and management contracts	$64,669	$62,539	$55,231
Expenses			
Ice rinks	49,768	48,856	43,107
Earnings before general & administration	14,901	13,683	12,124
General & administration	3,665	3,526	2,775
EBITA	11,236	10,157	9,349
Interest	3,894	4,210	3,955
Depreciation	4,274	4,361	3,888
Loss on held for trading liability	933	0	0
Other	(14)	20	341
	9,087	8,591	8,184
Net Income before taxes	2,149	1,566	1,165
Taxes, (recovery) expense	(1,678)	760	(189)
Net earnings	$3,827	$806	$1,354
Gross margin before general & administration	23%	22%	22%
Administration as a percentage of revenue	6%	6%	5%
EBITA as a percentage of revenue	17%	16%	17%

Summary of Quarterly Results

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

	2008				
in thousands	**Q1**	**Q2**	**Q3**	**Q4**	**Total**
Gross revenue	$18,887	$13,877	$12,921	$18,984	$64,669
Operating costs	(12,734)	(12,263)	(11,411)	(13,360)	(49,768)
	6,153	1,614	1,510	5,624	14,901
General & Administration	(821)	(876)	(902)	(1,066)	(3,665)
EBITA	**5,332**	**738**	**608**	**4,558**	**11,236**
Interest	(990)	(854)	(962)	(1,074)	(3,880)
Amortization	(1,075)	(1,075)	(1,184)	(940)	(4,274)
Other	0	0	0	(933)	(933)
Net earnings (loss) before taxes and other	**3,267**	**(1,191)**	**(1,538)**	**1,611**	**2,149**
Taxes (recovery) expense	(670)	223	278	1,847	1,678
Net earnings (loss)	**$2,597**	**($968)**	**($1,260)**	**$3,458**	**$3,827**
Earnings (loss) per share	**$0.19**	**($0.07)**	**($0.09)**	**$0.26**	**$0.29**

	2007				
Gross revenue	$18,396	$13,096	$12,308	$18,739	$62,539
Operating costs	(12,454)	(11,776)	(11,259)	(13,367)	(48,856)
	5,942	1,320	1,049	5,372	13,683
General & Administration	(898)	(936)	(804)	(888)	(3,526)
EBITA	**5,044**	**384**	**245**	**4,484**	**10,157**
Interest	(1,019)	(1,059)	(1,126)	(1,006)	(4,210)
Amortization	(1,073)	(1,089)	(1,100)	(1,099)	(4,361)
Other	6	(22)	(1)	(3)	(20)
Net earnings (loss) before taxes and other	**2,958**	**(1,786)**	**(1,982)**	**2,376**	**1,566**
Income (recovery) expense	(618)	362	395	(899)	(760)
Net earnings (loss)	**$2,340**	**($1,424)**	**($1,587)**	**$1,477**	**$806**
Earnings (loss) per share	**$0.18**	**($0.11)**	**($0.12)**	**$0.11**	**$0.06**

Management Discussion & Analysis

2008 Fourth Quarter Results

Revenue for the fourth quarter of 2008 was $19 million compared to $18.7 million in the same quarter last year. The fourth quarter results include revenue from the newly leased Vineland facility which totaled $150,000. On a same store basis, revenue was similar to 2007.

We currently have 2,713 teams registered across Canada for the 2008/09 ASHL winter season, compared to 2,640 registered for the prior year. An increase of 73 teams or 3%. The ASHL represents 46% of our total ice sales, and continues to thrive.

Operating earnings before general & administration expenses was $5.6 million in the quarter compared to $5.4 million in 2007.

After recording general & administration expenses of $1.1 million (2007 - $0.9 million) EBITA for the fourth quarter of 2008 was $4.6 million unchanged from 2007.

After recording an unrealized loss of $933,000 in the fourth quarter related to the interest rate swap, net earnings before taxes was $1.6 million compared to $2.4 million in the fourth quarter of 2007.

After adjusting for income taxes, net earnings was $3.5 million in the fourth quarter of 2008, compared to $1.5 million in 2007.

Comments on Current Economic Conditions

Despite the current economic downturn, we believe our business fundamentals are solid. As a result of the stability of the ASHL, our revenue stream in the fourth quarter of 2008 and year to date in 2009 have not indicated any decrease in revenue attributed to on-ice activity. This is a result of registration fees being paid well in advance and the league schedules are set to mid April. We have seen, however, a small decrease in year to date restaurant sales in Ontario which maybe a result of ASHL players feeling the effects of the economic environment. Our restaurants operate at a much lower profit margin than do our in ice business segments.

The real impact, if any, will be felt in the 2009 spring/summer program registrations and perhaps next years ASHL fall/winter registrations. Parents may choose to reduce the number of summer camps they enroll their children in this coming summer, and ASHL players may choose to take a season off.

What steps have we taken?

In preparation of any further downturn in the economy, Canlan has implemented a number of steps to monitor our expenses and support revenue-generating activities, including:

- Moved up all marketing campaigns related to our spring/summer season.
- Developed combination packages for our programs department and restaurants.
- Constant monitoring of revenue to enable timely reaction to problem areas.
- Reviewing accounts receivable ledgers more frequently.
- Educated our entire organization with a focus on cost control, primarily energy management.

In addition, we have developed an economic action plan in the event that our early warning signals reveal that the economic downturn is having a larger impact than expected. This plan includes altering a number of cost categories and reducing or eliminating all discretionary corporate spending.

As a result of the successful refinancing of our mortgages last summer with terms of three and 10 years, we have eliminated the renewal risk until September 2011, at which time we expect the availability of credit to have eased.

In terms of cash flow, we will benefit from a seasonal principal repayment program on a portion of our debt that calls for four monthly principal payments of $375,000 each from September to December, which is our highest cash flow period. In addition we will preserve cash by completing many of our larger capital expenditures programs in the late summer and fall of 2009 to allow us the time necessary to evaluate the impact of the current economic environment.

We believe that our core business, adult recreational hockey, is well suited to withstand the current economic downturn. We recognize our customers have options, and in difficult economic times some will reduce discretionary spending. Our product, primarily hockey leagues and programs, is part of the North American, especially Canadian, sports culture that is delivered with superior customer service at a relatively low per participant cost. These are not activities that the majority of our customers will choose to eliminate.

Review of Assets

The total book value of the Company's assets as at December 31, 2008 was $115 million compared to $110 million at December 31, 2007.

The table below summarizes the Company's asset base:

in thousands	2008	2007
Ice Rink facilities	$98,137	$99,046
Cash	7,588	4,570
Accounts and notes receivable	1,826	1,750
Inventory	1,071	1,144
Prepaid expenses and other assets	670	811
Land held for ice rink development	856	856
Future income taxes	4,566	1,380
	$114,714	$109,557

86% of our total asset base is comprised of land, building and equipment. During the year we spent $2.2 million on a variety of capital expenditure projects to renovate and improve our ice rink facilities using cash on hand. In addition the Company leased eight new ice resurfacing machines during the year. These expenditures, together with scheduled amortization of our assets resulted in a net decrease to the book value of our ice rink properties.

We expect to spend up to $2 million on capital expenditures annually in the foreseeable future as part of our long term capital plan which we are developing. Many of the capital expenditure programs have been scheduled for the second half of 2009 to better correlate with our seasonal cash flow cycle.

Review of Liabilities and Shareholders Equity

The table below summarizes the Company's capital structure:

in thousands	2008	2007
Mortgages payable	$49,105	$50,264
Deferred revenue and customer deposits	10,970	10,388
Accounts payable	5,721	5,527
Capital leases	1,639	1,116
Preferred shares	1,400	2,650
Financial liability held for trading	933	-
Future income taxes	1,507	-
	$71,275	$69,945
Shareholders' equity	43,439	39,612
	$114,714	$109,557

Total interest-bearing debt, which includes mortgages payable, preferred shares, and capital leases totaled $52.7 million as at December 31, 2008, a net decrease of $1.5 million from 2007. For financial statement presentation, our long-term debt is recorded net of related transaction costs, pursuant to the effective interest rate method of accounting for deferred financing costs.

Mortgages

The Company was successful in refinancing its entire mortgage debt in July 2008 with two lending institutions. The $50 million proceeds were used as follows:

in thousands	2008
Pay out existing mortgage debt	$48,746
Transaction cost	581
Working capital	673
	$50,000

The loan package consists of three credit facilities, and has a combined annual debt service of $5.8 million.

Specific terms of the three credit facilities are as follows:

- $30 million loan maturing July 15, 2018, fixed interest rate of 6.79% per annum, amortized over 20 years with interest payable monthly with seasonal principal payments of $375,000 per month from September 15 to December 15 annually.
- $13 million loan maturing September 30, 2011, variable interest rate of Prime plus 1.25%, amortized over 15 years with blended monthly payments. The Company has entered into an interest rate swap agreement to fix the interest rate on the principal borrowed at a rate of 4.12% per annum, plus applicable stamping fee at 2.5%, under an agreement expiring on September 30, 2011.
- $7 million loan maturing September 30, 2011, variable interest rate of Prime plus 1.25%, amortized over 12 years with blended monthly payments

We are in full compliance with all our debt covenants as at December 31, 2008.

Customer Deposits and deferred revenue

The largest single component of our current liabilities is comprised of deferred revenue related to league registrations and customer deposits received in advance which totaled $11.6 million as at December 31, 2008 (2007 - $10.6 million). We recognize revenue on a daily basis, as the ice is used; many of the seasonal contracts are paid in advance as are league registrations.

Capital Leases

We use capital leases to finance the acquisition of various types of heavy equipment used in our facilities as well as ice resurfacers. In 2008 we acquired eight new ice resurfacers, installed a new dehumidification system at Ice Sports York and a new condenser in Saskatoon.. The majority of our equipment leases have a term of five years.

Preferred Shares

The preferred shares carry an annual dividend of 12% payable quarterly, the remaining preferred shares ($1.4 million) will be redeemed on October 31, 2009. In accordance with accounting standards these preferred shares are classified as debt and the related dividend is recorded as interest.

Liquidity and Capital Resources

Our balance sheet at the end of 2008 indicated a working capital deficiency of $8.2 million, compared to $59 million at the end of 2007. We expect this deficiency to reduce as we will continue to improve our cash position by recording positive earnings.

The Company's debt to equity ratio continues to improve and was 1.20:1 at the end of the year, compared to 1.36:1 last year. The ratio has decreased as a result of scheduled principal reductions of debt, combined with an increase in shareholders' equity through net earnings. This ratio will continue to improve as debt levels decrease and the Company remains profitable.

Cash Flow

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

The Company improved its year over year cash position by $3 million, and ended the year with a cash balance of $7.6 million.

A strong year end cash position, together with seasonal principal payments related to 60% of our debt will benefit the Company in the negative cash flow months. This has enabled us to build sufficient cash reserves so that we will not have to arrange for a seasonal line of credit for the summer months as in past years.

The Company generated cash flow from operations before borrowing costs, preferred share dividends, debt principal and capital expenditures totaling $11.2 million. After providing for borrowing costs and preferred share dividends of $3.9 million, a $7.3 million positive cash flow resulted before principal repayments, preferred share redemption and capital expenditures.

The Company made scheduled principal repayments during the year totaling $2.1 million. We also redeemed preferred shares totaling $1.25 million in October 31, 2008. The final preferred share redemption is scheduled for October 31, 2009, in the amount of $1.4 million.

As stated earlier, we refinanced all our mortgage debt in July 2008, which totaled $50 million. The loan proceeds were used to refinance the existing mortgages that were coming due in September 2008. The transaction also generated excess cash that was used for working capital, in the amount of $0.7 million.

Total cash required to service our debt and preferred shares is expected to be $7.3 million in 2009, similar to 2008.

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

in thousands	Year ended December 31/08	Year ended December 31/07
Earnings before Interest, Taxes and Amortization (EBITA)	$11,236	$10,157
Changes in working capital items	1,031	122
Interest expense	(3,894)	(4,392)
Other	140	162
Cash flow from operations	8,513	6,049
Less:		
Mortgage principal reduction	(2,069)	(2,734)
Net proceeds on refinancing	673	-
Preferred shares (redemption)	(1,250)	(1,000)
Principal repayments on capital leases	(511)	(412)
Capital expenditures	(2,173)	(2,000)
Proceeds on sale of properties	85	-
Other	(250)	(153)
Change in cash position for the year	$3,018	($250)

Contractual Obligations and Off Balance Sheet Arrangements

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

in thousands	2009	2010	2011	2012	2013	Thereafter	Total
Long-term debt:							
Mortgage principal and interest	$5,413	$5,687	$21,561	$3,228	$3,120	$29,093	$68,102
Preferred shares	1,568	-	-	-	-	-	1,568
Equipment leases, includes interest	634	523	369	234	146	44	1,950
	7,615	6,210	21,930	3,462	3,266	29,137	71,620
Land and building leases	808	1,265	1,265	1,265	843	11,507	16,953
Off balance sheet financing	808	1,265	1,265	1,265	843	11,507	16,953
	$8,423	$7,475	$23,195	$4,727	$4,109	$40,644	$88,573

Share Capital

As approved by our shareholders at 2008 Annual General meeting, the Company completed a 20 for 1 share consolidation on December 2, 2008.

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

	2008	2007
Shares issued and outstanding	266,747,663	266,747,663
20 for 1 consolidation factor	20 for 1	20 for 1
Weighted average number of shares outstanding	13,337,383	13,337,383
Fractional shares issued	65	65
Shares issued and outstanding	13,337,448	13,337,448

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 SAR's vest in equal installments over a three year period and expire five years from the grant date.

After recalculating for the 20 for 1 stock consolidation, the 2006 SARs plan resulted in the Company issuing 720,000 stock appreciation rights at an exercise price of $1.20. Subsequent to the issuance, 35,000 rights have been exercised or cancelled, and 685,000 SAR remain outstanding related to the 2006 plan.

As at December 31, 2008, virtually all of the rights related to the 2006 plan have vested. The liability related to the SARs program is adjusted monthly and is based on the 10-day trading average closing price. In 2007 the Company recorded a liability in the amount of $0.3 million and this amount was expensed. Due to our year end 10 day average closing price falling below $1.20 we have reversed prior year's accrual as the liability no longer exists. This resulted in a recovery of $0.3 million in the current year.

Our Board of Directors approved a second SARs plan in 2008. The 2008 SAR plan provides certain employees with a total of 123,250 SAR's at an exercise price of $0.80. The 2008 plan was established in November 2008 and has the same vesting schedule as the 2006 plan. As at December 31, 2008, no liability existed for the 2008 plan, as the 10 day average closing price was below $0.80.

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, unchanged from the prior year.

During 2008, an affiliate of the Company's controlling shareholder provided seasonal financing, in addition to providing various forms of loan guarantees.

During 2008 the Company paid $43,000 (2007 - $124,000) in interest charges and $172,000 (2007 - $300,000) in loan guarantee fees to an affiliate of its controlling shareholder. In addition, the Company paid or accrued dividends totaling $318,000 (2007 - $398,000) related to the issuance of preferred shares. Total amount paid in 2008 to related parties for various debt arrangements was $533,000 (2007 - $822,000).

Financial Instruments

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

- Held for trading financial liabilities are measured at the fair value at the balance sheet date with any gain or loss recognized immediately in net income. The Company has entered into an interest-rate-swap agreement to fix the interest rate on a portion of its debt on ice rinks. The fair value of the instrument has been presented as a current liability on the balance sheet. At December 31, 2008, the fair value was $933,000. Changes in the fair value of the instrument are recognized in net earnings. For the year ended December 31, 3008, an expense of $933,000 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 December 31, 2008. The Company had no "other comprehensive income or loss" transactions during the year ended December 31, 2008 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. We have established a conversion plan and an IFRS project team, and have commenced our review of the accounting policy differences between Canadian GAAP and IFRS, as well as policy decisions and elections allowed under IFRS to ensure we adequately address all the key elements of the conversion.

As at the date of this MD&A, the impact on future financial position or results of operations is not reasonably determinable. We do anticipate a significant increase in disclosure resulting from the adoption of IFRS and are continuing to assess the impact of the new disclosures required on our reporting systems.

Forward Looking Statements

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

Risk Factors

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

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

Seasonality of operations

The Company's business cycle is highly seasonal with 58% of total revenues and virtually all of the operating profit being generated in the first and last quarter. This seasonality of operations impacts reported quarterly earnings. The operating result for any particular quarter is not necessarily a good indicator of operating results for the other fiscal quarters or the entire fiscal year. As a result of the seasonality, the highest cash flow period for the Company is in the fourth quarter when customer deposits for future ice contracts are received, and the lowest cash flow is in the summer months, when traffic is reduced.

Mitigating factors and strategies:
Various programs are developed to increase traffic during the summer period.
Variable operating costs are reduced during the summer period.

Competition

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

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

Insurance

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

A large part of our revenue is achieved through the development and organization of adult hockey leagues that play in our owned and managed facilities. Due to the nature of the sport, injuries can occur. The Company purchases liability and accident insurance, the cost of which is dependant upon the history of the number of claims and the quantum of such claims. There is always a risk that the cost of acquiring sufficient insurance to cover any such injury claims will become prohibitive or that such insurance will become unavailable.

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

Interest Rate and Loan Renewal Risk

The Company has fixed the interest rate on 86% of its mortgage debt, which totals $42.8 million. The remainder of our mortgage debt, totaling $6.9 million, is subject to variable interest rates. For every 1% change in the prime rate, interest expense will change by $69,000.

Our loans were refinanced during the year with varying maturity dates.
- 60% of the debt, currently $30 million, matures on July 15, 2018. The estimated balance on maturity is $16.5 million.
- 40% of our debt, currently $19.6 million, matures on September 30, 2011. The estimated balance on maturity is $16.6 million.

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

Mitigating factors and strategies:
- The Company maintains good relationships with its lenders through regular communications' and reporting.

Critical Accounting Policies and Estimates

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

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

Useful lives of depreciable assets

Ice rink properties and administrative assets, such as furniture, computer equipment and software are amortized on a straight-line basis over the estimated useful life of the asset. A large proportion of our total assets are comprised of our ice rink properties (2008 - 86%). The selection method of amortization and length of the amortization period could have a material impact on amortization expense and the net book value of our assets. Assets may become obsolete or require replacement before the end of their estimated useful lives, in which case any remaining unamortized costs would be written off.

Revenue recognition

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

Management Discussion & Analysis

Valuation of future income tax assets

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

Disclosure Controls and Procedures

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

Based on current securities legislation in Canada, our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are required to certify that they have assessed the effectiveness of our disclosure controls and procedures as at December 31, 2008.

Our management has evaluated, under the supervision and with the participation of our CEO and CFO, the design and effectiveness of the Company's disclosure controls and procedures as at the year ended December 31, 2008. 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 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 framework are effective as of December 31, 2008.

Outlook for 2009 and Beyond

We have reported a $1 million improvement in operating earnings when compared to 2007, and after recording an unrealized loss on a "held for trading liability", and increasing the balance of our future income tax asset, we reported net earnings of $3.8 million or $0.29 per share (2007 $0.8 million or $0.06 per share).

In addition to improved operating results, our balance sheet has been strengthened by a refinancing transaction that was completed on July 31, 2008. This transaction had a favourable effect on our cash flow by reducing the cash flow impact of our debt service requirements in the seasonally slower summer months. We ended the year with $7.5 million in cash, a significant increase over 2007.

As a result, we are no longer dependant on the financial support of our controlling shareholder for loan guarantees or seasonal credit facilities, which is a significant milestone.

The general outlook for the Company continues to be positive. We are, however, paying close attention to the current economic situation and have put into place measures to carefully review our fiscal and operational performance, and if necessary, we'll implement specific actions that address any further economic downturn. We believe our geographic diversification combined with an extensive product mix will help us weather the storm.

In September 2008 we added a two pad facility to our portfolio, located in Vineland New Jersey. We have agreed to lease the facility until December 31, 2012, with an option to purchase at the end of the lease. Expansion into the US market is part of our growth strategy plan. We are also looking at a number of other opportunities in the US market.

As always, we will align our growth strategy with our debt management objectives, which is to continue to reduce our debt to a more manageable level, as well as our cash management objectives, which is to preserve cash and improve our working capital.

Michael F. Gellard
Senior Vice President and
Chief Financial Officer

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements and other financial information of Canlan Ice Sports Corp. have been prepared by management in accordance with Canadian generally accepted accounting principles.

The Company's accounting procedures and related systems of internal control are designed to provide reasonable assurance, on a cost-effective basis that its assets are safeguarded and its financial records are reliable. In recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these consolidated financial statements have been prepared accordingly and within reasonable limits of materiality. Furthermore, management is satisfied that the financial information throughout the balance of this annual report is consistent with the information presented in the consolidated financial statements.

KPMG LLP have been appointed by the shareholders of the Company and serve as the Company's external auditors. They have examined the consolidated financial statements of the Company for the year ended December 31, 2008. The audit report, dated March 6, 2009, outlines the scope of their examination and their opinion on the consolidated financial statements.

The Audit Committee has reviewed these statements with management and the auditors, and has reported to the Board of Directors. The Board has approved the consolidated financial statements of the Company, which are contained in this annual report.

Joey St. Aubin
President and Chief Executive Officer
North York, Ontario

Michael F. Gellard
Senior Vice President and Chief Financial Officer
Burnaby, British Columbia

Auditors’ Report To The Shareholders

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Chartered Accountants
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AUDITORS’ REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Canlan Ice Sports Corp. as at December 31, 2008 and 2007 and the consolidated statements of earnings, comprehensive income and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Vancouver, Canada
March 6, 2009

Consolidated Balance Sheets

December 31, 2008 and 2007

(In thousands of dollars)

	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	$ 7,588	$ 4,570
Accounts receivable	1,826	1,750
Inventory	1,071	1,144
Prepaid expenses	331	589
Future income taxes (note 14)	3,209	752
	14,025	8,805
Properties:		
Ice rinks (note 6)	98,137	99,046
Held for ice rink development	856	856
	98,993	99,902
Future income taxes (note 14)	1,357	628
Other assets	339	222
	$ 114,714	$ 109,557
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 5,721	$ 5,527
Deferred revenue and customer deposits	10,970	10,388
Financial liability held for trading (note 15)	933	-
Current portion of:		
Obligations under capital leases (note 7)	551	394
Debt on ice rinks (note 8)	2,663	50,264
Preferred shares (note 9)	1,400	1,250
	22,238	67,823
Long-term liabilities:		
Obligations under capital leases (note 7)	1,088	722
Debt on ice rinks (note 8)	46,442	-
Preferred shares (note 9)	-	1,400
Future income taxes (note 14)	1,507	-
	49,037	2,122
	71,275	69,945
Shareholders' equity:		
Share capital (note 10)	63,109	63,109
Contributed surplus	543	543
Deficit	(20,213)	(24,040)
	43,439	39,612
Nature of operations (note 2)		
Commitments and contingencies (note 13)		
	$ 114,714	$ 109,557

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Director

Director

Consolidated Statements of Earnings, Comprehensive Income and Deficit

December 31, 2008 and 2007

(In thousands of dollars, except per share amounts)

	2008	2007
Revenue:		
Ice rinks (note 17)	$ 64,669	$ 62,539
Expenses:		
Ice rinks	49,768	48,856
Ice rinks operations	14,901	13,683
General and administration expenses	3,665	3,526
Earnings before the undernoted	11,236	10,157
Other expenses (income):		
Amortization	4,224	4,131
Interest	3,944	4,440
Loss on foreign exchange, net	38	20
Gain on sale of assets	(52)	-
Loss on held-for-trading financial liabilities (note 15)	933	-
	9,087	8,591
Earnings from operations before income taxes	2,149	1,566
Income taxes (note 14):		
Future (recovery) expense	(1,678)	760
Net earnings and comprehensive income	3,827	806
Deficit, beginning of year	(24,040)	(24,846)
Deficit, end of year	$ (20,213)	$ (24,040)
Basic and fully diluted earnings per common share	$ 0.29	$ 0.06
Weighted average common shares issued for basic and diluted earnings per share calculations	13,337,448	13,337,448

Consolidated Statements of Cash Flow

December 31, 2008 and 2007

(In thousands of dollars)

	2008	2007
Cash provided by (used in):		
Operations:		
Net earnings	$ 3,827	$ 806
Items not involving cash:		
Amortization	4,224	4,131
Amortization of deferred financing costs	228	230
Gain on sale of assets	(52)	-
Future income taxes	(1,678)	760
Loss on financial liability held for trading	933	-
Net change in non-cash working capital (note 18(a))	1,031	122
	8,513	6,049
Financing:		
Principal repayments of debt on ice rinks	(50,816)	(2,734)
Increase in debt on ice rinks	50,000	-
Financing costs	(582)	-
Principal repayments on obligations under capital lease	(511)	(412)
Redemption of preferred shares	(1,250)	(1,000)
	(3,159)	(4,146)
Investments:		
Proceeds on sale of assets	85	-
Expenditures on ice rink and recreational properties	(2,223)	(2,000)
Other assets	(198)	(153)
	(2,336)	(2,153)
Increase (decrease) in cash and cash equivalents	3,018	(250)
Cash and cash equivalents, beginning of year	4,570	4,820
Cash and cash equivalents, end of year	$ 7,588	$ 4,570

Supplemental cash flow information (note 18(b)).

See accompanying notes to consolidated financial statements.

1. General

Canlan Ice Sports Corp. (the "Company") focuses on the acquisition, development and operation of full service ice rink and recreational facilities primarily in Canada.

2. Nature of operations

In the current year, the Company refinanced its long term debt with principal payments coinciding with the Company's seasonal business such that the Company expects that it will no longer require shareholder support for financing during the off peak hockey season. In addition, the long term debt agreements cover three and ten year terms to provide the Company with liquidity over a reasonable period of time. The Company has a working capital deficiency of $8,213,000 as the Company finances a portion of its long term assets through customer deposits.

3. New accounting standards and policies

Effective January 1, 2008, the Company adopted the following new accounting standards that were issued by the Canadian Institute of Chartered Accountants:

(a) General standards on financial statement presentation:

Handbook Section 1400, General Standards on Financial Statement Presentation, requires the Company to assess and disclose its ability to continue as a going concern. The Company's adoption of this standard is disclosed in note 2.

(b) Capital disclosure:

Handbook Section 1535, Capital Disclosures, specifies requirements for the disclosure of: (i) an entity's objectives, policies, and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any established capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. All as describe in note 12.

(c) Financial instruments:

Handbook Sections 3862 and 3863, Financial Instruments – Disclosures and Financial Instruments – Presentation, replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revise and enhance its disclosure requirements and carries forward its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks (note 15).

(d) Inventory:

Handbook Section 3031 – Inventory, requires inventory to be measured at lower of cost and net realizable value. The standard also provides guidance on the costs that can be capitalized. In addition, previous inventory write-downs must be reversed if the economic circumstances have changed to support an increase in inventory value. The Company's adoption of this standard did not have a material impact on the Company's consolidated financial statements.

4. Significant accounting policies

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

(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) Cash equivalents:

Cash equivalents include all highly liquid investments with terms to maturity of three months or less.

(c) 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.

(d) Long-lived assets:

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

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

determined as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

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

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

(e) Revenue recognition:

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

(f) 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.

(g) Foreign currency:

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

(h) Financial Instruments:

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 December 31, 2008.

(i) 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.

(j) Earnings per share:

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

(k) 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.

(l) Measurement uncertainty:

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

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

(m) Income taxes:

Incomes taxes are accounted for by the asset and liability method. Under this method, future income tax assets and liabilities are determined on temporary differences (differences between the tax basis and accounting basis of assets and liabilities) and are measured using the enacted, or substantively enacted tax rates expected to apply when the asset is realized or the liability is settled. A valuation

allowance is recorded against any future income tax asset to reduce it to an amount that management considers is more likely than not to be realized.

(n) Prior year figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

5. Future changes in accounting policies

(a) Goodwill and intangible assets:

The CICA issued Section 3064, Goodwill and Intangible Assets, which is effective for the Company on January 1, 2009. This section establishes new standards for the recognition and measurement of intangible assets, but does not affect the accounting for goodwill. The Company does not expect the impact of this new standard on its financial statements to be material.

(b) International Financial Reporting Standards:

In February 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian generally accepted accounting principles in 2011 for all publicly accountable Canadian enterprises. The Company will be required to report its financial results in accordance with IFRS effective January 1, 2011. The Company is currently assessing the potential impacts of this changeover and developing its plan accordingly.

(c) Credit risk and fair value of financial instruments:

In January 2009, the CICA's Emerging Issues Committee issued EIC 173 that clarifies that entities must consider their own credit risk and the credit risk of the counterparty in the determination of fair value of derivative instruments. Under this guidance, entities would remeasure the fair value of financial assets and financial liabilities, including derivative instruments, as at the beginning of the period of adoption, to take into account both its own credit risk and counterparty credit risk. Any resulting difference would be recorded as an adjustment to retained earnings. The Company does not expect the impact of this new standard on its financial statements to be material.

6. Ice rinks

2008	Cost	Accumulated amortization	Net book value
Land	$ 14,616	$ -	$ 14,616
Buildings and building improvements	106,635	29,204	77,431
Machinery and equipment	7,194	4,075	3,119
Computers, furniture and fixtures	5,326	3,523	1,803
Ice resurfacing equipment	3,299	2,131	1,168
	$ 137,070	$ 38,933	$ 98,137

2007	Cost	Accumulated amortization	Net book value
Land	$ 14,616	$ -	$ 14,616
Buildings and building improvements	106,387	26,400	79,987
Machinery and equipment	6,020	3,583	2,437
Computers, furniture and fixtures	4,374	3,049	1,325
Ice resurfacing equipment	2,559	1,878	681
	$ 133,956	$ 34,910	$ 99,046

Included in ice rinks are assets under capital leases with a cost of $2,695,000 (2007 - $2,121,000) and accumulated amortization of $691,000 (2007 - $937,000).

7. Obligations under capital leases

Total minimum lease payments are as follows:

2009	$ 634
2010	523
2011	369
2012	234
2013	146
Thereafter	44
	1,950
Interest (rates vary from 4% to 8%)	311
Present value of minimum capital lease payments	1,639
Current portion	551
Long-term portion	$ 1,088

Lease obligations are secured directly by the leased assets.

Interest of $96,600 (2007 - $86,700) relating to capital lease obligations has been included in interest expense.

8. Debt on ice rinks

	Maturity dates	Interest rates	2008	2007
Fixed rate	2018	6.79%	$ 30,000	$ -
	2008	5.82%	-	38,838
Variable rate	2011	Prime + 1.25%	12,785	-
	2011	Prime + 1.25%	6,861	-
	2008	Prime + 1.00%	-	11,623
			49,646	50,461
Less: deferred financing costs			(541)	(197)
			49,105	50,264
Current portion			2,663	50,264
Long-term portion			$ 46,442	$ -

On July 31, 2008, the Company refinanced its debt on ice rink properties. As at December 31, 2008, debt on ice rinks consists of three credit facilities with two lending institutions as follows:

- $13,000,000 loan bearing interest at Prime rate plus 1.25% payable monthly, maturing on September 30, 2011. The Company has entered into an interest rate swap agreement to fix the interest rate on the total principal borrowed at a rate of 4.12% per annum, plus applicable stamping fees at 2.5%, under an agreement expiring in September 2011. As at December 31, 2008, the balance outstanding was $12,785,000;
- $7,000,000 loan maturing on September 30, 2011, interest at Prime rate plus 1.25% per annum, payable monthly. At December 31, 2008, the balance outstanding was $6,861,000; and
- $30,000,000 loan maturing on July 15, 2018, fixed interest at 6.79% per annum, payable monthly.

Amortization of deferred financing costs totaling $228,000 (2007 - $230,000) 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.

9. Preferred shares

On August 1, 2006, a wholly owned subsidiary of the Company issued 3,650,000 preferred shares to an affiliate of the Company's controlling shareholder for proceeds of $3,650,000. During the year, $1,250,000 of the preferred shares were redeemed by the Company. The preferred shares carry a cumulative annual dividend rate of 12% payable quarterly. At December 31, 2008, $1,400,000 of the preferred shares remained outstanding and will be redeemed on October 31, 2009.

10. 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, 2007	266,747,663	$ 63,109
Share consolidation	20 for 1	
Balance, December 31, 2008	13,337,448	$ 63,109

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 share, stock appreciation rights and per share information have been restated to reflect the share consolidation on a retrospective basis.

11. 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 rights during the year ended December 31, 2008:

	Number of rights	Weighted average exercise price
Number of rights outstanding, December 31, 2007	13,933,333	$ 0.06
Exercised	(233,333)	0.06
Forfeited	-	-
	13,700,000	0.06
Effect of share consolidation	20 for 1	
	685,000	1.20
Granted	123,250	0.80
Balance, December 31, 2008	808,250	$ 1.14

11. Stock-based compensation (continued)

The following table summarizes information about the stock appreciation rights outstanding at December 31, 2008:

		Rights outstanding		Rights exercisable	
Exercise price	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
$ 1.20	685,000	23 months	$ 1.20	673,333	$ 1.20
$ 0.80	123,250	59 months	$ 0.80	-	$ 0.80

During 2008, the Company recognized a compensation recovery of $275,300 (2007 - expense of $283,000) in respect of the SAR Plan.

12. 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 8) contains a covenant that requires the Company's debt to tangible net worth ratio, as defined in its debt agreements, to be no greater than 1.50. Tangible net worth is calculated as follows:

Shareholders' equity	$ 43,439
Less:	
Net future income tax asset	(3,059)
Net worth	40,380
Current and long-term portions of:	
Debt on ice rinks	49,646
Capital leases	1,639
Total debt	$ 51,285
Tangible net worth ratio	1.27

The Company has not made any changes to its overall capital management strategy during the year ended December 31, 2008.

13. Commitments and contingencies

(a) At December 31, 2008, 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 remaining lease terms, at December 31, 2008, range from 5 to 10 years and total minimum lease payments are as follows:

Years ending December 31:		
2009	$	500
2010		878
2011		879
2012		879
Thereafter		2,743

(b) 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. The annual lease cost is $297,600.

(c) On September 1, 2008, the Company entered into an agreement to lease an ice rink facility in Vineland, New Jersey from a third party. The Company does not have to make any lease payments until January 1, 2010, at which time, annual lease payments will amount to US$325,000 per annum. The term of the lease is for 52 months, and is accounted for as an operating lease. At the conclusion of the lease, the Company will have the option to purchase the facility for US$3,800,000. An implicit lease expense of US$75,000 related to the year ended December 31, 2008 has been recorded in these financial statements.

(d) Effective January 1, 2008, the Company entered into an agreement with a third party under the terms of which the Company will lease an ice rink facility it owns to the third party and the lessee will operate the facility. The annual lease payment payable to the Company is $325,000 and the term of the lease is for a period of 5 years. At the end of the term, the lessee has an option to purchase the facility from the Company for $4,500,000.

(e) 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.

14. Income taxes

(a) The major factors which caused variations from the Company's expected combined federal and provincial income tax rate of 32% for 2008 (2007 - 35%) were as follows:

	2008	2007
Statutory rate applied to earnings from continuing operations before income taxes	$ 688	$ 548
Recognition of future benefits related to loss carry forwards	(2,686)	23
Non-deductible expenses	121	139
Other	199	50
Income tax (recovery) expense	$ (1,678)	$ 760

(b) The tax effects of temporary differences that give rise to future income tax assets and future income tax liabilities at December 31, 2008 and 2007 are presented below:

	2008	2007
Future income tax assets:		
Unused tax losses	$ 4,938	$ 1,208
Properties	420	803
Unrealized loss on financial instruments	299	-
Other	106	93
	5,763	2,104
Less: valuation allowance	(1,197)	(724)
Total future income tax asset	4,566	1,380
Current portion of future income tax asset	3,209	752
Non-current future income tax asset	$ 1,357	$ 628
Future income tax liability:		
Properties – non-current	$ (1,507)	$ -
Net future income taxes	$ 3,059	$ 1,380
Presented on balance sheets as:		
Future income tax asset – current	$ 3,209	$ 752
Future income tax asset – non-current	1,357	628
Future income tax liability – non-current	(1,507)	-
	$ 3,059	$ 1,380

(c) At December 31, 2008 the Company has non-capital loss carry forwards for income tax purposes of approximately $15,245,000 (2007 - $3,636,000) available to offset future taxable income in Canada and the United States. The benefit of these losses will expire starting in 2009 through to 2028. None of these losses carried forward are restricted as to use.

15. 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.

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 December 31, 2008 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 8). The fair value of the instrument has been presented as a current liability on the balance sheet. At December 31, 2008, the fair value was $933,000. Changes in the fair value of the instrument are recognized in net earnings. For the year ended December 31, 3008, an expense of $933,000 was recognized.

(b) Interest rate risk:

The terms of the Company's outstanding debt are described in note 8. 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 $69,000 per annum.

(c) Liquidity risk:

Liquidity risk is the risk from the Company's potential inability to meet its financial obligations. The Company constantly monitors its cash flows and operations to ensure current and long-term obligations can be met. The Company's capital resources are comprised of cash and cash equivalents and cash flow from operating activities. A portion of the cash and cash equivalents at December 31, 2008 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.

16. Related party transactions

(a) During the year, the Company incurred approximately $43,000 (2007 - $124,000) in interest expense related to a note payable, preferred shares dividends of $318,000 (2007 - $398,000) (note 9) and fees of approximately $172,000 (2007 - $300,000) related to loan guarantees provided by an affiliate of the controlling shareholder.

(b) During the year, the Company paid $63,000 (2007 - $54,000) in directors' fees.

17. Segmented information

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

Ice rink revenue by services provided are as follows:

	2008	2007
Ice sales	$ 46,800	$ 44,889
Restaurant and lounge	12,199	12,090
Sports store	1,897	2,179
Management and consulting fees	347	395
Other	3,426	2,986
	$ 64,669	$ 62,539

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

18. Supplemental cash flow information

	2008	2007
(a) Net changes in non-cash working capital:		
Accounts receivable	$ (76)	$ 72
Inventory	73	42
Prepaid expenses	258	(227)
Accounts payable and accrued liabilities	194	277
Deferred revenue and customer deposits	582	(42)
	$ 1,031	$ 122
(b) Supplemental cash flow information:		
Interest paid	$ 3,912	$ 4,262
Taxes paid	-	3
Non-cash transactions:		
Capital lease obligations	$ 1,034	$ 656

Five Year Review

(expressed in thousands, except statistics)	2008	2007	2006	2005	2004
Assets:					
Ice rink properties	$98,137	$99,046	$100,464	$92,215	$95,526
Other	12,011	9,131	9,599	5,627	4,251
Future income tax benefit	4,566	1,380	2,140	1,950	1,768
	$114,714	$109,557	$112,203	$99,792	$101,545
Liabilities:					
Ice rink mortgages	$49,105	$50,264	$53,195	$49,144	$47,238
Preferred Shares	1,400	2,650	3,650	-	-
Other	19,263	17,031	16,552	13,198	17,905
Future income tax liability	1,507	-	-	-	-
	$71,275	$69,945	$73,397	$62,342	$65,143
Shareholders' Equity:					
Share capital	$63,109	$63,109	$63,109	$63,109	$63,109
Contributed surplus	543	543	543	541	533
Retained earnings (deficit)	(20,213)	(24,040)	(24,846)	(26,200)	(27,240)
	$43,439	$39,612	$38,806	$37,450	$36,402
Statistics:					
Total debt to equity ratio	1.64	1.77	1.89	1.66	1.79
Share price range	$1.00-2.00	$1.20-2.70	$0.80-1.40	$0.80-1.20	$0.80-2.20

Five Year Review

(expressed in thousands, except per share data)	2008	2007	2006	2005	2004
Revenue:					
Ice rinks	$64,669	$62,539	$55,231	$48,768	$46,138
Operating expenses:					
Ice Rinks	49,768	48,856	43,107	37,607	35,317
General and administative	3,665	3,526	2,775	2,764	2,534
	53,433	52,382	45,882	40,371	37,851
Earnings before interest, amortization and taxes	11,236	10,157	9,349	8,397	8,287
Other expenses:					
Amortization	4,224	4,131	3,888	3,687	3,590
Interest	3,944	4,440	3,955	3,477	3,681
Loss on financial instruments	933	0	0	0	0
Other	(14)	20	341	(14)	312
Taxes (recovery)	(1,678)	760	(189)	2	(1,294)
	7,409	9,351	7,995	7,152	6,289
Net earnings from continuing operations	3,827	806	1,354	1,245	1,998
Loss from discontinued operations	-	-	-	(205)	(54)
Net earnings	$3,827	$806	$1,354	$1,040	$1,944
Basic & fully diluted earnings per common share:					
From continuing operations	$0.29	$0.06	$0.10	$0.10	$0.36
Net earnings	$0.29	$0.06	$0.10	$0.08	$0.36
Issued shares at year end (000s)	13,337	13,337	13,337	13,337	13,337
Average shares outstanding (000s)	13,337	13,337	13,337	13,337	5,498

Corporate Information

Directors

Charles Allen
Private Investor
Whitby, Ontario

W. Grant Ballantyne
Director
Terago Networks
Victoria, BC

Frank D. Barker
Partner
Kinetic Capital Partners
Vancouver, BC

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

Edwin Cohen
Private Investor
Toronto, ON

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

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

Officers

W. Grant Ballantyne
Chairman

Joey St. Aubin
President & CEO

Arthur Dickson
Senior Vice-President
Business Development

Michael F. Gellard
Senior Vice-President & CFO

Mark Faubert
Senior Vice-President of Operations

Greg Porcellato
Vice President
Western Operations

Ken Male
Vice-President
Eastern Operations

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

Ivan C. Wu
Vice-President Finance & Controller

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Registrar & Transfer Agent

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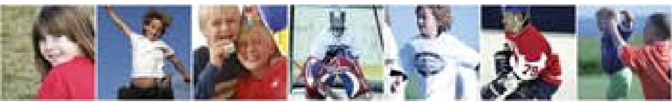
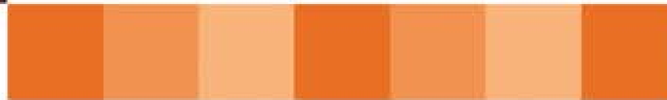
Shares Listed

Toronto Stock Exchange, Symbol ICE

Web site

www.icesports.com





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