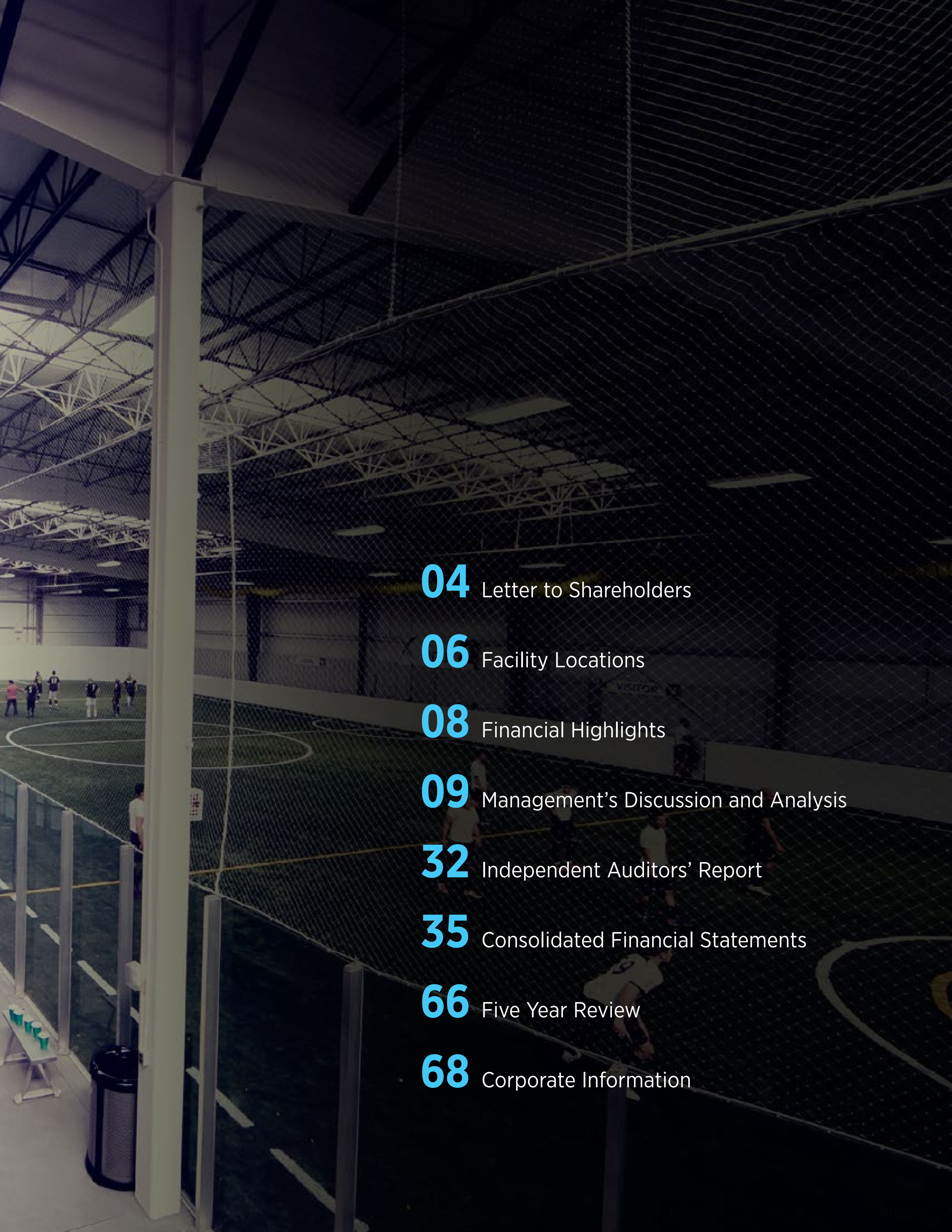
2013 ANNUAL REPORT / CANLAN ICE SPORTS CORP.

CANLAN ICE SPORTS

A high performance industry leader, passionately committed to providing exceptional customer experiences, every time.



04 Letter to Shareholders

06 Facility Locations

08 Financial Highlights

09 Management's Discussion and Analysis

32 Independent Auditors' Report

35 Consolidated Financial Statements

66 Five Year Review

68 Corporate Information

Letter to Shareholders

Joey St-Aubin
President &
Chief Executive Officer

We are very proud of our accomplishments in 2013. This year's operating earnings of $9.8 million was unchanged from 2012, despite closing down six ice sheets during the spring and summer season for planned major renovations. Customer safety and experience are priorities for us, and with that in mind we chose to remediate older surfaces in our facilities located in Winnipeg, Brossard and Burnaby to bring them up to Canlan standards. This required an investment of $7 million over and above our regular annual capital expenditure program and required us to take six surfaces off line during the second and third quarters, a very delicate time of the year. Staff and customers have responded favorably to these improvements and we are confident that this will strengthen our leadership position within each of these markets for years to come. With these six surfaces back in active inventory, we expect very positive results.

Our continued focus on employee development and retention has allowed us to improve bench strength while creating efficiencies and capacity which we can now use to our advantage as we aim to expand into new markets and diversify our business into turf and court sports. Our new Sportsplex model is proving to be a success and we are currently looking at ways to expand this model into existing and new markets.

In 2010 we made a very conscious decision to begin a heightened focus on energy conservation and at the time invested in a full time energy manager. This investment has been tremendous for Canlan, enabling us to partner with several local and provincial utility providers, access a number of government grant programs and develop energy conservation strategies that have reduced energy costs significantly. Energy costs are our second largest expense, next to labour. We have a number of energy conservation projects still in the works, all of which we expect will have a positive impact on our business, by reducing operating costs.

Our sales & marketing efforts on the web, with promotional videos and through social media, have really begun to create a buzz in all of our markets. With a shift away from traditional marketing into social media, it's imperative that we effectively use technology to communicate our brand message to our customers.

We have developed strong partnerships with key organizations in our industry which allows us to take advantage of opportunities before they become apparent to our competitors. With our talent and experience we are quick to change and have the ability to innovate to take advantage of opportunities as they arise.

We remain confident in our ability to grow within our current markets and into new markets with ice and multi-sport facilities. Our financial position remains solid and the Board of Directors has continued to support our quarterly dividend policy of $0.02 per share.

On behalf of the Executive Team and our Board of Directors, I wish to thank our customers for their ongoing patronage, our employees for their hard work and dedication, our partners for standing with us and you, our shareholders, for your ongoing support. In addition, I would like to thank Mr. Bill Pattison for his 28 years of dedicated service on Canlan's Board of Directors and Audit Committee. Mr. Pattison will be retiring from Canlan's Board at our June 19, 2014 annual general meeting.

Sincerely,

Joey St-Aubin
President & Chief Executive Officer

Geographic Overview Of Facility Locations

Portfolio at a Glance

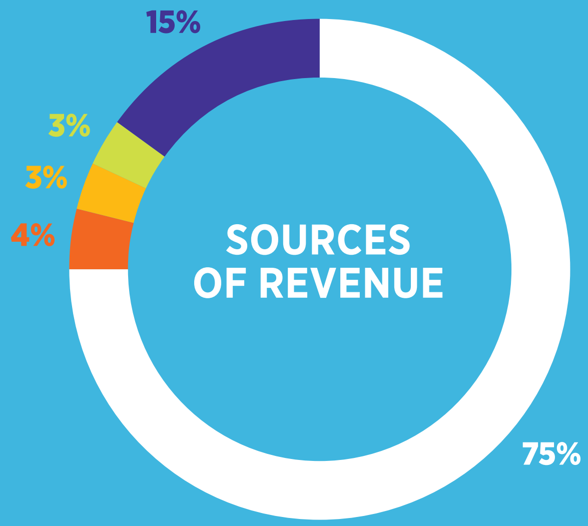
CANADA

PROVINCE	METROPOLITAN AREA	FACILITY NAME	FACILITY FEATURES
British Columbia	Greater Vancouver Area	Burnaby 8 Rinks	7 ice rinks & 1 indoor soccer field
		Ice Sports North Shore	3 ice rinks
		Ice Sports Langley Twin Rinks	2 ice rinks
	Interior British Columbia	South Cariboo Recreation Centre	1 ice rink
		Armstrong/Spallumcheen Parks & Recreation	1 ice rink & 1 outdoor pool
Saskatchewan	Saskatoon	Ice Sports Jemini	4 ice rinks
		Ice Sports Agriplace	2 ice rinks
Manitoba	Winnipeg	Ice Sports Winnipeg	3 ice rinks & 1 indoor soccer field
Ontario	Greater Toronto Area	Ice Sports Etobicoke	4 ice rinks
		Ice Sports Oakville	4 ice rinks
		Ice Sports Scarborough	4 ice rinks
		Ice Sports Victoria Park	2 ice rinks
		Ice Sports York	6 ice rinks
		Ice Sports Oshawa	2 ice rinks
		Canlan Sportsplex	2 indoor soccer fields, volleyball & ball hockey courts
Quebec	Montreal	Les 4 Glaces	4 ice rinks

USA

STATE	METROPOLITAN AREA	FACILITY NAME	FACILITY FEATURES
Illinois	Chicago	Ice Sports Romeoville	3 ice rinks
Indiana	Fort Wayne	SportONE/Parkview Icehouse	3 ice rinks

Financial Highlights



75% Ice and Field

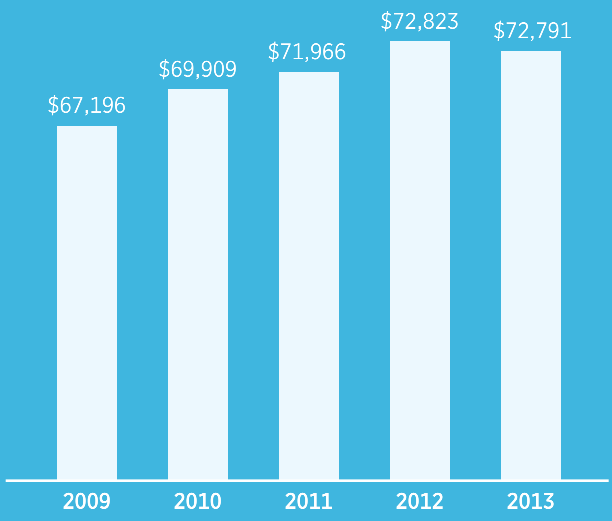
15% Food and Beverage

4% Sponsorship, Space Rental and Other

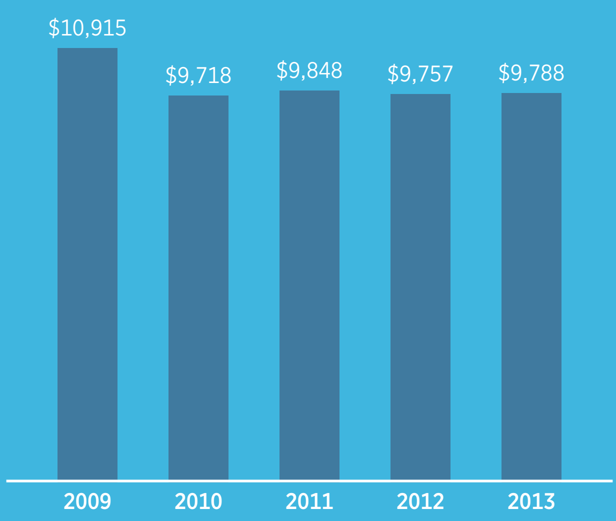
3% Tournament Division

3% Sports Store

IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE INFORMATION	2013	2012	2011
Revenue	**72,791**	72,823	71,966
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**9,788**	9,757	9,848
Net earnings before taxes	**1,689**	2,287	4,113
Net earnings	**1,096**	1,295	2,844
Total assets	**105,561**	102,824	104,740
Shareholders equity	**44,956**	44,927	44,632
Earnings per common share	**$0.08**	$0.10	$0.21
Shareholders equity per share	**$3.37**	$3.37	$3.35
Weighted average common shares	**13,337,448**	13,337,448	13,337,448



REVENUE (IN THOUSANDS)



EBITDA (IN THOUSANDS)

Management's Discussion and 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, 2013 and 2012. This document should be read in conjunction with our audited consolidated financial statements for the years ended December 31, 2013 and 2012 and accompanying notes. The results reported herein have been prepared in accordance with International Financial Reporting Standards ('IFRS') and are presented in Canadian dollars.

In the following discussion, we define EBITDA as earnings before interest, taxes, depreciation and amortization. In addition, the term free cash flow is used, which we calculate as cash flow from operations less capital expenditures minus any proceeds from the disposition of capital assets. However, EBITDA and free cash flow are not terms that have specific meaning in accordance with IFRS, and may be calculated differently by other companies. The Company discloses EBITDA and free cash flow because these are useful indicators of operating performance and liquidity.

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** and our website **www.icesports.com**.

The date of this MD&A is March 20, 2014.

Forward Looking Statements

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

Overall Performance

2013 HIGHLIGHTS:

- Revenue of $72.8 million and EBITDA of $9.8 million for the year remained consistent with 2012 despite shutting down six ice surfaces for major renovations at three facilities during the summer;
- $7.0 million of major facility renovations to improve ice quality, building structure and amenities were completed at three facilities on time and on budget;
- Q4 EBITDA of $5.5 million (a record high since Canlan began focusing on recreation in 1998) increased by $1.0 million or 23% compared to prior year;
- Canlan Sportsplex, which houses two indoor soccer fields, three volleyball courts and a sport court, is our first non-ice multi-sport complex located in Mississauga, Ontario. Its first full year of operations in 2014 contributed $0.7 million of incremental revenue on a year over year basis. In addition, the new facility operated at close to break-even before facility lease cost in its first full year.

Business of the Company

Canlan Ice Sports Corp. is a leading operator of recreational and entertainment facilities. The Company's first venture into the ice rink industry was in 1986, when it acquired a facility known as Columbia 4 Rinks located in Burnaby B.C. This facility was expanded in 1995 to an eight-rink facility, which is now known as Burnaby 8Rinks. 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, Ontario. We currently have approximately 1,000 full time and part time employees working in our facilities and two corporate offices.

As at the date of this MD&A the Company owns, leases or manages a network of 18 facilities in Canada and the United States containing playing surfaces as outlined below. The Company owns 10 of these facilities containing 1.1 million square feet of space situated on 141 acres of land; we operate two facilities under long-term land lease arrangements and a further four facilities under operating leases. We also currently manage two facilities on behalf of municipalities.

We operate primarily in the sports and recreation industry, with a focus on ice, turf and court sports. Our largest single revenue source within this segment is adult hockey, catering to both men and women operating under the Adult Safe Hockey League (ASHL) brand. 44% of our ice revenue is provided by the ASHL.

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

	NUMBER OF FACILITIES	SURFACES
2013	**18**	**68**
2012	20	70
2011	20	66
2010	21	67
2009	22	69

A more detailed summary of the locations of our facilities is as follows:

CANADA	FACILITIES	ICE SURFACES	INDOOR TURF FIELDS	COURTS	TOTAL PLAYING SURFACES
British Columbia	5	14	1	–	15
Saskatchewan	2	6	–	–	6
Manitoba	1	3	1	–	4
Ontario	7	22	2	9*	33
Quebec	1	4	–	–	4
	16	**49**	**4**	**9**	**62**

USA					
Illinois	1	3	–	–	3
Indiana	1	3	–	–	3
	2	6	–	–	6
	18	**55**	**4**	**9**	**68**

* Includes 3 indoor volleyball courts, 4 outdoor beach volleyball courts and 2 sport courts

About Canlan

Canlan is 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.

There are 13,337,448 shares outstanding that have traded in the $2.30 to $2.60 range since December 31, 2013. The Company has not issued any shares since November 2004. The Company derives revenue from seven primary categories:

1. **ICE AND FIELD SALES**
   Revenue from ice and field rentals (together called "ice rentals" or "ice sales"), and internal programming.
2. **FOOD AND BEVERAGE**
   Sales from our licensed restaurants and concession operations inside our facilities.
3. **SPORTS STORES**
   Sales and rental of sports equipment and apparel, and skate sharpening services.
4. **TOURNAMENT OPERATIONS**
   Registrations in youth and adult tournaments organized by our Tournament Division.
5. **MANAGEMENT AND CONSULTING**
   Fees from managing facilities owned by third parties and consulting engagements completed by our Partnership Solutions Division.
6. **SPONSORSHIP**
   Revenue from sponsorship and advertising sales.
7. **SPACE RENTAL**
   Rental of space inside our facilities.

Vision, Core Business and Strategy

Canlan will strive to be: *"A high performance industry leader, passionately committed to providing exceptional customer experiences, every time."*

The Company's goal is to leverage its position in the North American recreation industry by continuing to focus on both organic growth and expansion through acquisition and long term lease. While our largest single market segment is adult recreational hockey leagues, we are focused on increasing utilization in other important segments including skating and hockey schools, soccer programs, specialty sports leagues and camps, and hockey tournaments. 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. At the same time, we actively seek opportunities to expand our business through acquisition, partnership solutions with third parties, or leasing facilities. Expansion objectives are to achieve a high return on investment and penetrate strategic markets.

We have developed six critical success factors supported by specific project initiatives that help the organization reach our goals:

1. **SALES AND MARKETING**
   Cutting edge marketing that maximizes brand awareness, revenue and customer loyalty.
2. **CUSTOMER EXPERIENCE**
   Exceptional service delivered by well-trained and motivated staff, which results in consistently great experiences.
3. **NEW VENTURES & INNOVATION**
   Proactively seek out new opportunities that drive revenue and income growth.
4. **OPERATIONAL EXCELLENCE**
   Highly efficient and effective facility operations using industry-leading technology, streamlined process and consistent best practices.
5. **PEOPLE & LEADERSHIP**
   Strong leadership and highly dedicated people accountable for delivering outstanding customer experiences and business results.
6. **CULTURE**
   High energy action-oriented culture that has a strong foundation in team-work, pride, respect and accountability.

Management continues to focus on carrying out these initiatives that are connected with these critical success factors. Over the past three years, several new ventures have been established and operational improvements have been achieved through strategic capital investments.

The Marketplace and Our Competition

Canlan's current marketplace is recreation, and we understand that we compete for market share with other sports and activities, some of which have lower participation costs. Our largest customer segment is adult hockey players. This segment of our business represents 44% of our total ice revenue from rentals and programming, or $24.1 million. It also represents 33% of total revenue.

Canlan's largest competition is from municipalities and private league operators. Local governments cater primarily to their constituents who are usually made up of minor hockey and other amateur user groups. There are many private league operators in Canada that purchase ice time from local rinks and run adult leagues. Unless an oversupply situation exists in a jurisdiction, we do not believe that competition from municipalities and local league operators will be significant enough to impede our growth. Canlan has various competitive advantages, one of which is that we control the ice inventory in our facilities, enabling us to schedule ice times efficiently and provide quality ice times where deemed most appropriate. In addition, our facilities are generally full-service sports & entertainment centers where we incorporate retail and food & beverage services into the customers' experience.

Competitive Strengths

The Company believes that it has the following competitive strengths:

OUR EMPLOYEES. Canlan currently has 1,000 full and part time dedicated employees in Canada and the USA. Through training and internal communications, we have established Canlan as the place to work in our industry and we attract skilled people in the industry. Our employees are focused on providing quality customer service and a safe environment.

ADULT SAFE HOCKEY LEAGUE (ASHL). The Company operates one of the largest adult recreational hockey leagues in North America. The ASHL offers superior services and fair competition in a fun environment. It operates year-round and has approximately 67,000 players registered for the winter and summer seasons in various divisions based on skill and age.

GEOGRAPHIC COVERAGE. Canlan currently owns and operates facilities in five provinces in Canada and two U.S. states giving us broad geographic coverage. Our geographic diversity and wide customer base help to mitigate the effects of economic cycles.

EXECUTIVE TEAM. Canlan's executive team is comprised of nine individuals who are members of the management committee. This group plans and monitors operations in all departments, sets policies, as well as continually assesses future growth strategies. These individuals have extensive expertise in operations, sales, marketing, customer service, finance & accounting and human resources.

BUYING POWER. As a result of being geographically diversified, and having significant product volumes in a number of categories, we are able to negotiate national supply agreements for preferred pricing.

Selected Financial Information

The following selected consolidated financial information as at December 31, 2013, 2012, and 2011 and each of the quarters and years then ended has been derived from our 2013 and 2012 annual and interim consolidated financial statements. This data should be read together with those financial statements.

	(UNAUDITED) QUARTER ENDED DECEMBER 31		(AUDITED) YEAR ENDED		
IN THOUSANDS	**2013**	**2012**	**2013**	**2012**	**2011**
STATEMENT OF OPERATIONS DATA:					
Total revenue	**$ 20,959**	$ 20,335	**$ 72,791**	$ 72,823	$ 71,966
Direct expenses [1]	**(14,562)**	(14,284)	**(58,769)**	(57,912)	(57,847)
General & administration expenses	**(895)**	(1,571)	**(4,234)**	(5,154)	(4,271)
EBITDA	**5,502**	4,480	**9,788**	9,757	9,848
OTHER EXPENSES:					
Depreciation	**(1,510)**	(1,239)	**(5,633)**	(5,112)	(5,150)
Finance costs	**(620)**	(575)	**(2,371)**	(2,381)	(2,867)
Gain on sale of assets	**-**	-	**-**	-	2,578
Other	**(45)**	(21)	**(95)**	23	(296)
Taxes	**(890)**	(840)	**(593)**	(992)	(1,269)
Net Earnings	**$ 2,437**	$ 1,805	**$ 1,096**	$ 1,295	$ 2,844
Basic and fully diluted earnings per share	**$ 0.18**	$ 0.14	**$ 0.08**	$ 0.10	$ 0.21
BALANCE SHEET DATA					
Cash			**$ 10,080**	$ 12,900	$ 13,886
Current assets (excluding cash)			**3,849**	3,403	3,398
Capital assets			**89,971**	84,954	84,967
Other assets			**1,661**	1,567	2,489
Total assets			**$ 105,561**	$ 102,824	$ 104,740
Current liabilities, excluding debt			**$ 18,595**	$ 18,300	$ 17,593
Mortgage debt			**39,774**	37,832	40,899
Equipment leases			**1,459**	1,186	1,073
Deferred tax liabilities			**777**	579	543
Total liabilities			**60,605**	57,897	60,108
Shareholders equity			**44,956**	44,927	44,632
			$ 105,561	$ 102,824	$ 104,740
Dividends declared			**$ 1,067**	$ 1,000	$ 801

[1] Direct expenses include all operating costs related to the operation of our facilities

Review of Fiscal 2013 Operations

REVENUE

Total revenue of $72.8 million for the year remained consistent with 2012 despite shutting down six ice surfaces for major renovations at three facilities during the summer.

Approximately 75% or $54.6 million (2012 – $54.4 million) of the Company's total revenue is generated from field and ice activities. In-house programming accounts for approximately 73% of this revenue source and gives us a distinct advantage over third-party rentals because it enables us to manage ice and field inventory based on demand, which results in increased margins. Canlan's largest internal program is the Adult Safe Hockey League.

THE ADULT SAFE HOCKEY LEAGUE

The Adult Safe Hockey League ("ASHL") operates in two seasons: 1) the fall/winter season from September to April and; 2) the spring/summer season from May to August.

In 2013, the ASHL generated $24.1 million in total registration revenue which represents 44% of our total ice sales (2012 – $24.6 million, 45% of ice sales). ASHL revenue decreased from 2012 mainly due to partial rink closures at three facilities for major renovations during the spring/summer season and the loss of satellite leagues. Satellite leagues are Canlan's ASHL leagues that operate in third-party facilities. Ice time to run our satellite leagues were not readily available in 2013.

The growth of registrations in the ASHL has generally slowed down compared to historical experience due to increased competition from other league and rink operators and from other recreational activities. Management's focus is to continuously enhance the experience of players that participate in the ASHL, whether it be the registration process, game play, playoff formats, or post-game social networking. This is critical to maintaining our position as leaders in the adult recreation hockey market.

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 seasons. These leagues are designed for minor-hockey-aged players who wish to continue playing after the regular fall/winter 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 more speed in the game.

In the US locations, our facilities are associated with minor hockey organizations in their local communities and revenues are earned from a combination of ice rentals to minor hockey associations, and registration fees for youth hockey teams and programs that we operate internally.

In 2013 youth hockey leagues generated $3.3 million in gross revenue which was consistent with 2012.

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 and fun activity in various other sports.

Hockey and Skating Academies for adult and youth operate throughout the year and weekly classes are held to teach everything from learn-to-skate to power skating and team tactics. The growth opportunities of these programs are concentrated in the summer season when ice inventory is available and the youth population is generally not in school.

In 2013 we had approximately 33,000 participants (2012 – 32,000) in these programs and generated $5.4 million in gross revenue; an increase of $0.3 million or 5.0 % from $5.1 million in 2012.

CONTRACT ICE RENTALS

After providing the necessary allocation of ice times to operate our in-house programs, we rent ice to third parties. Contract users are required to sign seasonal contracts and are charged a fixed hourly rate. The ice time is used by private groups, minor hockey associations, third party tournaments and camp operators as well as some adult leagues. Overall, third party contracts accounted for $15.1 million in 2013; an increase of $0.2 million or 1.7% from $14.8 million in 2012.

SOCCER

Canlan operates four indoor soccer fields, one in Burnaby built in 2000, one in Winnipeg, built in 2006 and two in Ontario built in 2012. 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 Burnaby and Winnipeg facilities that consume all evening times. The Adult Indoor Soccer League ("AISL") has over 6,800 players registered in both locations and the league operates in two separate seasons during the year, with a similar business plan to the ASHL. We have also started up a similar soccer league in our new Canlan Sportsplex that contains two indoor fields.

We generated $1.7 million in total revenue from soccer in 2013, an increase of $0.3 million or 21.2% from $1.4 million in 2012.

Revenue generated from activity on our ice rinks and soccer fields are broken down as follows:

	2013		2012	
IN THOUSANDS	**REVENUE**	**% OF TOTAL**	**REVENUE**	**% OF TOTAL**
Adult hockey leagues	**$ 24,073**	**44**	$ 24,592	45
3rd party contract users	**15,068**	**27**	14,819	27
Hockey & skating schools	**5,353**	**10**	5,099	9
Youth hockey leagues	**3,270**	**6**	3,343	6
Public programs & spot rentals	**3,214**	**6**	3,264	6
Soccer field rentals & leagues	**1,660**	**3**	1,370	3
Figure skating	**871**	**2**	836	2
In-house tournaments	**282**	**-**	336	1
Other	**820**	**2**	710	1
	$ 54,611	**100**	$ 54,369	100

FOOD & BEVERAGE (F&B)

Revenue from our 16 restaurant and concession operations was $11.0 million in 2013, compared to $11.3 million 2012.

The overall decrease in sales of $0.3 million was mainly due to reduced traffic in facilities that underwent major renovation, offset by increased F&B sales in US facilities and our new multi-sports complex. F&B sales in the rest of our facilities remained steady compared to 2012.

Food and beverage sales accounted for 15% of total revenue compared to 16% in 2012.

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 was 57% and 43% respectively, remained relatively consistent with 2012. The main drivers for F&B revenue are adult league players and tournament traffic that play in our venues. Management is focusing on menu offerings, pricing, and promotional programs to regain customer loyalty in our restaurants.

SPORTS STORES

During the year, Canlan operated eight sports stores that sell equipment, apparel, and skate sharpening services in our buildings. The Company rents to third party store operators under long term leases in another five facilities. Our sports stores generated $2.1 million in gross sales in 2013, compared to $2.0 million in 2012. Sports store revenue represents 3% of total revenue. Skate sharpening revenue was $0.5 million, unchanged from 2012.

MANAGEMENT CONTRACTS

Management services revenue is comprised of fees for managing ice rink facilities on behalf of owners and one-time consulting engagements. Management fee revenue of $0.2 million was generated in 2013 which was consistent with 2012. Currently we have two active management contracts.

TOURNAMENT OPERATIONS

Canlan's Tournament Division is focused on maintaining a high level of in-house tournament business in the seasonally slow summer months, thereby reducing our reliance on third party tournament operators. Revenue generated from this division of $2.2 million, increased by $0.2 million or 9.7% from $2.0 million in the prior year. While the majority of the CCT events are held in Canlan facilities, which increases the utilization of our ice, the division also holds a number of destination tournaments in third party arenas.

OTHER REVENUE

Other sources of revenue totaled $2.7 million in 2013 compared to $2.9 million in 2012. In many facilities, we rent space to complimentary types of businesses. In 2013 we recorded $0.8 million in facility and space rental revenue which was consistent with 2012.

Another significant component of other revenue is sponsorship. In 2013 we generated $1.2 million in sponsorship revenue compared to $1.4 million in 2012.

REVENUE BY BUSINESS SEGMENT AND GEOGRAPHIC REGION

	2013		2012	
IN THOUSANDS	**SALES**	**% OF TOTAL**	**SALES**	**% OF TOTAL**
Ice and field sales	**$ 54,611**	**75**	$ 54,369	75
Food and beverage	**11,050**	**15**	11,313	16
Sports store	**2,062**	**3**	2,037	3
Tournament division	**2,176**	**3**	1,984	3
Sponsorship	**1,221**	**2**	1,361	1
Space rental	**768**	**1**	764	1
Management fees & consulting	**180**	**–**	215	–
Other	**723**	**1**	780	1
	$ 72,791	**100**	$ 72,823	100

	2013		2012	
IN THOUSANDS	**SALES**	**% OF TOTAL**	**SALES**	**% OF TOTAL**
CANADA				
British Columbia	**$ 17,077**	**24**	$ 17,595	24
Alberta	**89**	**–**	141	–
Saskatchewan	**6,185**	**8**	5,870	8
Manitoba	**3,964**	**5**	4,055	6
Ontario	**36,137**	**50**	35,766	49
Quebec	**4,487**	**6**	4,951	7
	67,939	**93**	68,378	94
USA	**4,852**	**7**	4,445	6
	$ 72,791	**100**	$ 72,823	100

REVENUE BY QUARTER

The Company recorded the following revenue by quarter in 2013. The revenue stream is seasonal with 57% of the Company's revenue being generated in the fall and winter months (first and fourth quarters) and 43% in the spring and summer season (second and third quarters).

	2013		2012	
IN THOUSANDS	**REVENUE**	**% OF TOTAL**	**REVENUE**	**% OF TOTAL**
Q1	**$ 20,661**	**28**	$ 21,148	29
Q2	**16,078**	**22**	16,109	22
Q3	**15,093**	**21**	15,231	21
Q4	**20,959**	**29**	20,335	28
	$ 72,791	**100**	$ 72,823	100

DIRECT OPERATING COSTS

Total facility operating costs were $58.8 million in 2013 compared to $57.9 million in 2012. The increase is mainly due to an increase in labour costs and direct customer service expenses partially offset by a reduction in utilities. Labour costs increased by $0.4 million or 1.5% mainly due to annual wage increments in the normal course of business. Labour is our largest expense and represents 48% of our direct operating costs which was consistent with 2012. We continuously monitor labour rates to stay competitive in all markets. Three of our facilities are subject to collective agreements with two different unions.

Customer service expenses such as prizing, league statistics, camp supplies, etc, increased by $0.8 million mainly due to league incentive and promotions. Utility expenses include the cost of electricity, gas and water. Total utility expense of $6.2 million decreased by $0.5 million or 7.3% as a result of various energy reduction initiatives completed over the past few years.

Also included in operating costs are building and land lease payments related to five of our facilities. In 2013, rent payments totaled $1.8 million which was consistent with 2012.

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

	2013		**2012**	
IN THOUSANDS	**COSTS**	**% OF TOTAL**	**COSTS**	**% OF TOTAL**
Q1	**$ 14,782**	**25**	$ 15,131	26
Q2	**15,205**	**26**	14,490	25
Q3	**14,220**	**24**	14,007	24
Q4	**14,562**	**25**	14,284	25
	$ 58,769	**100**	$ 57,912	100

OPERATING MARGIN BEFORE GENERAL AND ADMINISTRATION EXPENSES

Operating margin is calculated as revenue less operating expenses expressed as a percentage of revenue. Operating margin for 2013 was 19% compared to 20% in 2012.

U.S. FACILITY OPERATIONS

In the United States, the Company operates two ice rink facilities; a 3-pad facility in Fort Wayne, Indiana, and another 3-pad building in Romeoville, Illinois.

In Fort Wayne, Canlan leases the facility under a 20-year lease agreement that began in February 2010. The lease gives the Company the option to purchase the facility from the lessor for US$9.3 million anytime during the first five years of the lease, and US$9.8 million during years six and seven. Total revenue of US$2.0 million in 2013 was consistent with 2012. Operating income was US$0.1 million (2012 – US$0.2 million), before lease expense of US$0.6 million.

The facility in Romeoville, a suburb of Chicago, was purchased in June 2011. During 2013, total revenue of US$2.7 million increased by US$0.5 million or 25% and EBITDA was US$0.7 million compared to US$0.3 million a year ago. The performance of this facility has met management's expectations and the facility continues to grow sales from ASHL, youth leagues, and third party contracts.

Fundamentally, operating ice rink facilities in the US is similar to Canada; however, there is a general difference in product mix that is very specific to a particular market.

GENERAL AND ADMINISTRATION EXPENSES

Corporate G&A expenses of $4.2 million decreased by $0.9 million or 17.9% compared to 2012 mainly due to the reduction of stock based compensation expense of $0.6 million that was recognized in the previous year. Fair value changes of the rights are based on market values of Canlan's common stock that trades on the TSX. The Stock Appreciation Rights (SARs) plan was established in 2005 and made available to the Company's executive management and directors. *See Liquidity and Capital Resources* – Share Capital below for further details.

The remainder of the decrease in G&A resulted from decreased consulting costs which included a one-time cost of $0.2 million in 2012. G&A expense represents 6% of total revenue in 2013, compared to 7% in 2012.

G&A expenses throughout the year are as follows:

	2013		2012	
IN THOUSANDS	**EXPENSE**	**% OF TOTAL**	**EXPENSE**	**% OF TOTAL**
Q1	**$ 1,214**	**29**	$ 1,257	24
Q2	**1,235**	**29**	1,287	25
Q3	**890**	**21**	1,039	20
Q4	**895**	**21**	1,571	31
	$ 4,234	**100**	$ 5,154	100

EBITDA

After accounting for ice rink operating costs of $58.8 million (2012 – $57.9 million) and G&A expenses of $4.2 million (2012 – $5.2 million), EBITDA of $9.8 million remained consistent with 2012.

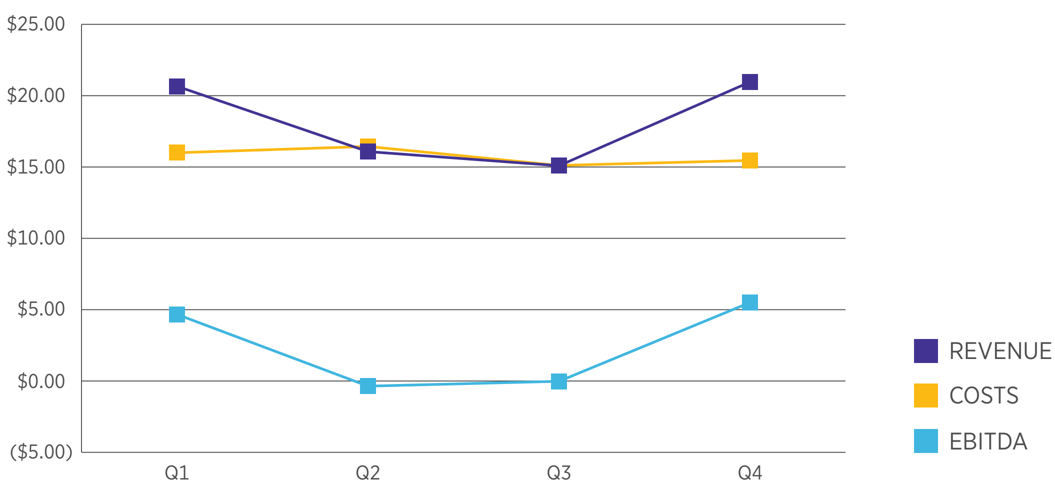
The Company's EBITDA by quarter was as follows:

	2013		2012	
IN THOUSANDS	**EBITDA**	**% OF TOTAL**	**EBITDA**	**% OF TOTAL**
Q1	**$ 4,665**	**48**	$ 4,760	49
Q2	**(362)**	**(4)**	332	3
Q3	**(17)**	**–**	185	2
Q4	**5,502**	**56**	4,480	46
	$ 9,788	**100**	$ 9,757	100

The seasonality of the Company's EBITDA is a direct result of seasonal revenue stream combined with a cost structure that is relatively fixed.

This trend is illustrated as follows:

RESULTS BY QUARTER (IN MILLIONS)



GROSS MARGIN

Gross margin is calculated as revenue less operating and G&A expenses, expressed as a percentage of revenue. Gross margin for 2013 was 13% which was consistent with 2012.

NON-OPERATING EXPENSES

DEPRECIATION

Depreciation expense was $5.6 million in 2013 compared to $5.1 million in 2012. The increase is consistent with the increase in property, plant and equipment that resulted from the major renovation projects completed 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 forty years.

FINANCE INCOME AND COSTS

Finance income and costs consist of interest income earned on cash on hand, unrealized gains related to the fair value adjustment of an interest rate swap contract, interest expense on mortgage debt and finance leases, and amortization of deferred financing costs. The interest rate swap contract is a derivative instrument used to fix the interest rate on $7.0 million of variable rate mortgage debt. The financial instrument has not been designated as a hedge for accounting purposes; therefore, the resulting gain or loss from the change in fair value of the instrument is recognized in the statement of earnings and comprehensive income. Net finance costs of $2.4 million which was consistent with 2012.

A breakdown of our net finance cost is as follows:

IN THOUSANDS	**2013**	**2012**
Mortgage interest	**$ 2,282**	$ 2,380
Interest income	**(73)**	(80)
Equipment lease interest	**118**	97
Unrealized gain on financial instrument	**(19)**	(76)
Amortization of deferred financing costs and other	**63**	60
	$ 2,371	$ 2,381

At year end, the Company had interest bearing, mortgage secured debt totaling $40.0 million (2012 – $38.1 million).

The Company has fixed the interest rate on 74% of its mortgage debt, or $29.6 million at a weighted average rate of 5.50%. Debt with variable interest rates consists of $3.2 million at the Prime rate plus 1.25%, $2.3 million at the LIBOR plus 2.50% and $4.9 million at BA plus 2.5%.

Costs related to debt financing are amortized using the effective interest rate method in accordance with IFRS and classified as interest expense. In 2013 this amounted to $63,000 compared to $60,000 in 2012.

NET EARNINGS BEFORE INCOME TAXES

Net earnings before income taxes were $1.7 million in 2013 compared to $2.3 million in 2012; a decrease of $0.6 million.

TAXES

In 2013, the Company's Canadian operations generated positive taxable income that resulted in current tax expense of $0.5 million. In addition, deferred tax expense was $46,000 combined for a total income tax expense of $0.6 million compared to $1.0 million in 2012.

Each year, management reviews assumptions regarding deferred income tax assets and liabilities to ensure that the reported balances appropriately reflect tax benefits available to offset future income taxes and future reversal of those benefits. The deferred tax assets and liabilities mainly resulted from the timing difference between tax and accounting depreciation, and the timing difference of deferred revenue.

Because U.S. operations have incurred losses during the past several years, there are non-capital losses from rink operations of approximately $8.2 million carried forward that are available to offset future taxable income in the United States. However, this has not been recognized as deferred tax assets in the consolidated statement of financial position at December 31, 2013 because we have not yet developed a reasonably predictable pattern of profitability in U.S. operations.

NET EARNINGS

Net earnings after tax for the year ended December 31, 2013 was $1.1 million or $0.08 per share, compared to net earnings of $1.3 million in 2012 or $0.10 per share.

SUMMARY OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31 IN THOUSANDS	**2013**	**2012**	**2011**
Revenue	**$ 72,791**	$ 72,823	$ 71,966
Expenses	**58,769**	57,912	57,847
Earnings from operations	**14,022**	14,911	14,119
General & administration	**4,234**	5,154	4,271
EBITDA	**9,788**	9,757	9,848
Other expenses (income)			
Depreciation	**5,633**	5,112	5,150
Gain on sale of assets	**–**	–	(2,578)
Other	**95**	(23)	296
	5,728	5,089	2,868
Finance costs (income)			
Finance costs	**2,462**	2,537	3,021
Finance income	**(91)**	(156)	(154)
	2,371	2,381	2,867
Net earnings before taxes	**1,689**	2,287	4,113
Income tax expense			
Current	**547**	–	–
Deferred	**46**	992	1,269
	593	992	1,269
Net earnings	**$ 1,096**	$ 1,295	$ 2,844
Operating margin before general & administration	**19.3%**	20.5%	19.6%
Administration as a percentage of revenue	**5.8%**	7.1%	5.9%
EBITDA as a percentage of revenue	**13.4%**	13.4%	13.7%

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.

	2013				
IN THOUSANDS	**Q1**	**Q2**	**Q3**	**Q4**	**TOTAL**
Gross revenue	$ 20,661	$ 16,078	$ 15,093	$ 20,959	$ 72,791
Operating costs	(14,782)	(15,205)	(14,220)	(14,562)	(58,769)
	5,879	873	873	6,397	14,022
General & administration	(1,214)	(1,235)	(890)	(895)	(4,234)
EBITDA	**4,665**	**(362)**	**(17)**	**5,502**	**9,788**
Depreciation	(1,305)	(1,357)	(1,461)	(1,510)	(5,633)
Finance costs	(588)	(561)	(602)	(620)	(2,371)
Other	(30)	(51)	31	(45)	(95)
Net earnings (loss) before taxes and other	**2,742**	**(2,331)**	**(2,049)**	**3,327**	**1,689**
Income taxes	(712)	566	443	(890)	(593)
Net earnings (loss)	**$ 2,030**	**$ (1,765)**	**$ (1,606)**	**$ 2,437**	**$ 1,096**
Earnings (loss) per share	**$ 0.15**	**$ (0.13)**	**$ (0.12)**	**$ 0.18**	**$ 0.08**

	2012				
IN THOUSANDS	**Q1**	**Q2**	**Q3**	**Q4**	**TOTAL**
Gross revenue	$ 21,148	$ 16,109	$ 15,231	$ 20,335	$ 72,823
Operating costs	(15,131)	(14,490)	(14,007)	(14,284)	(57,912)
	6,017	1,619	1,224	6,051	14,911
General & administration	(1,257)	(1,287)	(1,039)	(1,571)	(5,154)
EBITDA	**4,760**	**332**	**185**	**4,480**	**9,757**
Depreciation	(1,355)	(1,267)	(1,251)	(1,239)	(5,112)
Finance costs	(564)	(638)	(604)	(575)	(2,381)
Other	14	(27)	57	(21)	23
Net earnings (loss) before taxes and other	**2,855**	**(1,600)**	**(1,613)**	**2,645**	**2,287**
Income taxes	(988)	387	449	(840)	(992)
Net earnings (loss)	**$ 1,867**	**$ (1,213)**	**$ (1,164)**	**$ 1,805**	**$ 1,295**
Earnings (loss) per share	**$ 0.14**	**$ (0.09)**	**$ (0.09)**	**$ 0.14**	**$ 0.10**

Since 57% of our revenue is generated in the winter months while operating costs are relatively fixed, quarterly earnings fluctuate significantly during the year. The Company reported EBITDA of $10.2 million in Q1 and Q4 combined, compared to a loss before interest, taxes, depreciation and amortization of $0.4 million in Q2 and Q3. In terms of net earnings, the Company has generally reported net losses in the spring and summer months.

Review of Fourth Quarter 2013

In Q4, revenue of $21.0 million, increased by $0.6 million or 3.1% from 2012. Main drivers of the increase in revenue are incremental sales from instructional programs, third party contract users, and incremental field rental and F&B revenue from the new Canlan Sportsplex in Mississauga.

Operating cost of $14.6 million, increased by $0.3 million or 1.9% from 2012. The increase was mainly due to plant and building repairs and maintenance cost and provincial regulatory charges imposed on hydro electricity.

Operating earnings before G&A expenses was $6.4 million during Q4 compared to $6.1 million in 2012.

After recording G&A expenses of $0.9 million, EBITDA was $5.5 million compared to $4.5 million in 2012. G&A decreased by $0.7 million or 43.1% compared to 2012 due to a reduction of non-cash compensation expense related to the SARs program.

Total Q4 revenue and EBITDA were the highest fourth quarterly totals achieved in Canlan's history since 1998.

After recording finance costs, depreciation, and gains and losses related to financial instruments and investment properties totaling $2.2 million, net earnings before taxes was $3.3 million compared to $2.6 million in the fourth quarter of 2012.

After adjusting for income taxes, net earnings was $2.4 million or $0.18 per share, compared to $1.8 million or $0.14 per share in 2012. A summary of Q4 results is as follows:

IN THOUSANDS	2013	2012
Gross revenue	**$ 20,959**	$ 20,335
Operating costs	**(14,562)**	(14,284)
	6,397	6,051
General & administration	**(895)**	(1,571)
EBITDA	**5,502**	4,480
Depreciation	**(1,510)**	(1,239)
Finance costs	**(620)**	(575)
Other	**(45)**	(21)
Net earnings before taxes and other	**3,327**	2,645
Income taxes	**(890)**	(840)
Net earnings	**$ 2,437**	$ 1,805
Earnings per share	**$ 0.18**	$ 0.14

Review of Assets

The total book value of the Company's assets as at December 31, 2013 was $105.6 million compared to $102.8 million at December 31, 2012.

The table below summarizes the Company's asset base:

IN THOUSANDS	2013	2012
Properties	**$ 89,401**	$ 84,384
Cash	**10,080**	12,900
Accounts receivable	**2,333**	1,820
Inventory	**1,095**	1,075
Prepaid expenses and other assets	**848**	993
Investment properties	**570**	570
Deferred tax assets	**1,234**	1,082
	$ 105,561	$ 102,824

Property, plant and equipment makes up 85% of our total asset base and is comprised of land, building and equipment. During the year, $7.0 million of capital expenditures were incurred to complete major renovation at three of our facilities to improve ice quality, building structure and amenities. The refurbishment projects have significantly enhanced customers' on and off-ice experiences and are expected to improve plant and equipment efficiency as well. A further $2.6 million of capital expenditures were incurred to renovate and improve our other facilities. Cash on hand and a new loan of $5.0 million were utilized to finance these capital costs.

Investment properties remained consistent with prior year.

The decrease of cash on hand at the end of 2012 compared to 2011 is mainly due to the cash spent on the completion of the three major renovations.

Management estimates that normal annual capital expenditures required will be approximately $2.5 million as part of our long term capital plan. However, when required, the Company will incur additional capital costs to more extensively refurbish and renovate building structures and ice rinks to provide customers with safe and high quality amenities.

Review of Liabilities and Shareholders' Equity

The table below summarizes the Company's capital structure:

IN THOUSANDS	2013	2012
Mortgages payable	**$ 39,774**	$ 37,832
Deferred revenue and customer deposits	**11,216**	11,348
Accounts payable	**7,360**	6,914
Capital leases	**1,459**	1,186
Deferred tax liabilities	**777**	579
Financial liability held for trading	**19**	38
	60,605	57,897
Shareholders' equity	**44,956**	44,927
	$ 105,561	$ 102,824
Shareholders' equity per common share	**$ 3.37**	$ 3.37

Total interest-bearing debt, which includes mortgages payable and capital leases totaled $41.2 million as at December 31, 2013, compared to $39.0 million at the end of fiscal 2012, a net increase of $2.2 million. The increase was due to a combination of a new loan for capital expenditure and repayments of principal on existing debt and capital leases. 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

At December 31, 2013, total loans consist of five credit facilities with three different lenders, two of which mature in September 2014 and the others from 2016 to 2020. At December 31, 2013, the long-term debt payable of $10.3 million that matures in 2014 has been entirely classified as a current liability. The Company expects to refinance the debt prior to its maturity. Normalized combined annual debt service would be approximately $6.1 million and a principal reduction of $3.9 million.

Specific terms of the five credit facilities are as follows:

- $30.0 million loan maturing July 15, 2018, fixed interest rate of 6.79% per annum, amortized over 20 years with interest payable monthly and seasonal principal payments of $375,000 per month from September 15 to December 15 annually. At December 31, 2013, the balance outstanding was $22.5 million.
- $9.0 million loan maturing September 30, 2014, variable interest rate of Prime plus 1.25%, amortized over 15 years with blended monthly payments. The Company has entered into an interest rate swap agreement to fix the interest rate on the principal borrowed at a rate of 4.15% per annum. At December 31, 2013, the balance outstanding was $7.1 million.
- $5.4 million loan maturing September 30, 2014, variable interest rate of Prime plus 1.25%, amortized over 12 years with blended monthly payments. The Prime rate is currently 3%. At December 31, 2013, the balance outstanding was $3.2 million.
- $2.6 million loan maturing September 30, 2016, variable interest rate of LIBOR plus 2.5%, amortized over 15 years with blended monthly payments. The LIBOR rate is currently 0.16%. At December 31, 2013, the balance outstanding was $2.3 million. This loan is denominated in U.S. currency.
- $5.0 million loan maturing on June 30, 2020, interest at the 30-day Canadian Bankers Acceptance rate plus 2.50% per annum. Installments of principal and interest are payable monthly with an amortization period of seven years. At December 31, 2013, the balance outstanding was $4.9 million. The credit facility was used to finance capital expenditures related to specific capital projects in three of the Company's recreation facilities.

The Company has available, a $0.7 million uncommitted operating line of credit. Outstanding amounts would incur interest at the Prime rate plus 1.75%, and be secured by general security agreements. The operating line of credit expires on September 30, 2014. No amounts were drawn from this line of credit as at December 31, 2013. In addition, the Company has available a $5.0 million committed revolving acquisition credit facility. Outstanding amounts would incur interest at Prime rate plus 1.25%. The revolving credit facility expires on September 30, 2014. This credit facility is currently unused.

We are in full compliance with all our debt covenants as at December 31, 2013 and we expect to continue to be in compliance during the coming fiscal year.

CUSTOMER DEPOSITS AND DEFERRED REVENUE

A large component of our current liabilities is comprised of deferred revenue related to league registrations and customer deposits received in advance which totaled $11.2 million as at December 31, 2013 (2012 – $11.3 million). We recognize revenue as the ice is used; many of the seasonal contracts and league registrations are paid in advance.

FINANCE LEASES

We use finance leases to finance the acquisition of various types of heavy equipment used in our facilities such as ice resurfacers and refrigeration equipment. In 2013 we acquired three new ice resurfacers financed by equipment leases that have a term of five years, refrigeration equipment that have a term of four years and some food & beverage equipment that have a term of ten years.

Liquidity and Capital Resources

Canlan's cash balance as at December 31, 2013 was $10.1 million compared to $12.9 million from December 31, 2012. The decrease at year end was principally due to the cash invested in capital expenditures in our three major renovation projects.

During the year, we utilized $3.1 million for scheduled mortgage principal repayments. The Company also paid $0.6 million to reduce the principal on finance leases.

In 2013 a total of $9.6 million was spent on capital expenditures. Major projects completed include the major renovations to improve ice quality and amenities at Burnaby 8Rinks, Ice Sports Winnipeg and Les 4 Glaces, ball hockey court at Ice Sports Scarborough, roofs restructuring, refrigeration equipment, rink boards and kitchen equipment.

During the year, the Company paid four quarterly dividends of $0.02 per share in January, April, July and October 2013 for a total of $1.1 million. On November 13, 2013, the Company continued its dividend policy and declared a quarterly dividend of $0.02 per share on a record date on December 30, 2013 which was paid on January 15, 2014.

Summarized statement of cash flows:

IN THOUSANDS	2013	2012
Cash inflows and (outflows) by activity		
Operating activities	**$ 6,663**	$ 8,087
Financing activities	**218**	(4,553)
Investing activities	**(9,701)**	(4,520)
	(2,820)	(986)
Cash position, beginning of year	**12,900**	13,886
Cash position, end of year	**$ 10,080**	$ 12,900
Key ratios		
Working capital	**$ (17,872)**	$ (5,589)
Debt to equity ratio	**0.92:1**	0.87:1

Our balance sheet at the end of 2013 indicated a working capital deficiency of $17.9 million. At December 31, 2013, the long-term debt payable of $10.3 million that matures in 2014 has been classified as a current liability. The Company expects to refinance the debt prior to its maturity. Excluding the effects of this presentation, the Company has a working capital deficiency of approximately $9.1 million. The increase in working capital deficiency was principally due to utilization of cash in the three major renovations.

The Company's debt to equity ratio remained below 1:1 at the end of the year. The ratio has increased as a result of a new loan of $5.0 million drawn in 2013 offset by scheduled principal repayments of debt. The ratio is expected to remain below 1:1 in 2014.

CASH FLOW

Our cash position fluctuates during the year as a result of the seasonality of our business. Historically the highest cash position is December and lowest occurs in August. We generally collect registration fees for the ASHL in the first three months of each season, and program fees are collected upon registration. We have built sufficient cash reserves to manage the seasonality of our business without having to access credit lines for working capital and we expect this to continue in the future.

Cash flow from operating activities decreased to $6.6 million in 2013 compared to $8.2 million in 2012. After accounting for debt repayments, capital expenditures, and dividends paid, cash decreased by $2.8 million in 2013.

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

IN THOUSANDS	2013	2012
EBITDA	**$ 9,788**	$ 9,757
Changes in working capital items	**(239)**	782
Net finance costs	**(2,351)**	(2,396)
SARs cash payments	**(484)**	–
Other	**(158)**	7
Cash flow from operations	**6,556**	8,150
Less:		
Mortgage principal reduction	**(3,094)**	(3,127)
New loan	**5,000**	–
Capital expenditures	**(9,701)**	(4,520)
Equipment lease payments	**(621)**	(491)
Dividends paid	**(1,067)**	(935)
Effects of changes in foreign currency rates	**107**	(63)
Change in cash position for the year	**$ (2,820)**	$ (986)

CONTRACTUAL OBLIGATIONS

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. Long term debt of $10.3 million is expected to be refinanced before its maturity of September 30, 2014.

IN THOUSANDS	2014	2015	2016	2017	2018	THEREAFTER	TOTAL
Long-term debt:							
Mortgage principal and interest	$14,709	$4,020	$5,517	$3,542	$17,864	$ 1,215	$ 46,867
Equipment leases, includes interest	557	440	380	216	46	5	1,644
	15,266	4,460	5,897	3,758	17,910	1,220	48,511
Land and building leases (off balance sheet financing)	1,798	1,884	1,891	1,897	1,917	20,070	29,457
	$17,064	**$6,344**	**$7,788**	**$5,655**	**$19,827**	**$21,290**	**$ 77,968**

Share Capital

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

	2013	2012
Shares issued and outstanding	13,337,448	13,337,448
Weighted average number of shares outstanding	**13,337,448**	**13,337,448**

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

The Company has outstanding stock appreciation rights as follows:

EXPIRY DATE	NUMBER OF RIGHTS	NUMBER OF RIGHTS EXERCISEABLE AT DECEMBER 31, 2013	EXERCISE PRICE
April 15, 2014*	35,000	35,000	$1.50
June 15, 2014	58,000	38,667	$1.80
November 28, 2014	35,000	23,333	$1.75
November 29, 2016	650,250	–	$2.30
	778,250	97,000	

During the year, 580,025 SARs were exercised at a weighted average exercise price of $1.84.

* In January 2014, the 35,000 SARs that expire April 15, 2014 were exercised.

The liability related to the SARs program is adjusted quarterly based on the fair value of the SARs as estimated using the Black-Scholes pricing model. As at December 31, 2013 the Company recorded a liability in the amount of $56,000. For the year ended December 31, 2013, fair value measurement of the SARs liability resulted in a net compensation recovery of $68,000 that was recognized in the statement of earnings and comprehensive income.

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. Bartrac's ownership position in TSX: ICE has remained unchanged since November 2004.

The Company did not record any related party transactions with Bartrac in 2013 and 2012.

The Company paid $162,000 (2012 – $164,000) in directors' fees.

Two Directors of Canlan's Board are also Directors of a vendor from which Canlan purchases services in the normal course of business. Purchases from this vendor for the year ended December 31, 2013 was $56,000 (2012 – $50,000).

Financial Instruments

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

- Held for trading financial liabilities are measured at the fair value at the balance sheet date with any gain or loss recognized immediately in net income. The Company has entered into an interest-rate-swap agreement to fix the interest rate on a portion of its debt on ice rinks. The fair value of the instrument has been presented as a current liability on the balance sheet. At December 31, 2013, the fair value was $19,000, compared to $38,000 last year. Changes in the fair value of the instrument are recognized in net earnings. For the year ended December 31, 2013, an expense recovery of $19,000 was recognized, compared to an expense recovery of $76,000 in 2012.
- Loans and receivables are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise of cash and cash equivalents and accounts receivable.
- Non-derivative financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. Non-derivative financial liabilities comprise of accounts payable and accrued liabilities, obligations under finance leases and debt on ice rinks.
- 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, 2013. The Company had no "other comprehensive income or loss" transactions during the year ended December 31, 2013 and no opening or closing balances for accumulated other comprehensive income or loss.

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, 2013.

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, 2013. Management has concluded that these disclosure controls and procedures, as defined in National Instrument 52-109 – Certification of Disclosure in Issuers Annual and Interim Filings (NI 52-109), are adequate and effective and that material information relating to the Company was made known to them and reported within the time periods specified under applicable securities legislation.

Our management, under the supervision of our CEO and CFO, has also designed and evaluated the effectiveness of the Company's internal controls over financial reporting (ICFR) using the Internal Control – Integrated Framework as published by the Committee of Sponsoring Organization of the Treadway Commission (1992 Framework) (COSO) Framework. Based on our evaluation, management has concluded that ICFR, as defined in NI 52-109 and using the COSO integrated framework are effective as of December 31, 2013.

There were no changes in our ICFR during the year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect our ICFR.

Risk Factors

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

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

LEVERAGE AND ABILITY TO SERVICE INDEBTEDNESS

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

- the Company will have to use a significant portion of its cash flow from operations for debt service, rather than for operations.
- the Company may not be able to obtain additional debt financing for future working capital, capital expenditures or other corporate purposes.
- the Company could be more vulnerable to economic downturns and less able to take advantage of significant business opportunities or to react to changes in market or industry conditions.
- the Company's less leveraged competitors could have a competitive advantage.

The Company's ability to pay the principal and interest on debt obligations will depend on its future performance. To a significant extent, our performance will be subject to general economic, financial and competitive factors. We can provide no assurances that its business will generate cash flow from operations sufficient to pay the Company's indebtedness, fund other liquidity needs or permit the Company to refinance its indebtedness. The Company can provide no assurances that it can secure any further credit facilities or that the terms of any such credit facilities will be favourable.

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

Mitigating factors and strategies:

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

INCURRENCE OF DEBT AND THE GRANTING OF SECURITY INTERESTS

From time to time, the Company may enter into transactions and these transactions may be financed partially or wholly with short or long term debt, which may increase the Company's debt levels above industry standards and may require the Company to grant security interests in favour of third parties. Neither the Company's articles nor notice of articles limit the amount of indebtedness that the Company may incur or its ability to grant security interests. Should the Company default on any of its obligations under any secured credit facility, this could result in seizure of the Company's assets. The level of the Company's indebtedness from time to time could impair our ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Mitigating factors and strategies:

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

INSURANCE

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

Mitigating factors and strategies:

- Company maintains its facilities to 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.

U.S. OPERATIONS

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

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

Mitigating factors and strategies:

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

SEASONALITY OF OPERATIONS

The Company's business cycle is highly seasonal with 57% of total revenues and virtually all of the operating profit being generated in the first and last quarters. This seasonality of operations impacts reported quarterly earnings. The operating result for any particular quarter is not necessarily a good indicator of operating results for the other fiscal quarters or the entire fiscal year. As a result of the seasonality, the highest cash flow period for the Company is in the fourth quarter when customer deposits for future ice contracts are received, and the lowest cash flow is in the summer months, when traffic is reduced.

Mitigating factors and strategies:

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

COMPETITION

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

Mitigating factors and strategies:

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

EMPLOYEE AND UNION RELATIONS

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

Mitigating factors and strategies:

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

KEY PERSONNEL

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

Mitigating factors and strategies:

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

UTILITY COSTS

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

Mitigating factors and strategies:

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

INTEREST RATE RISK

Mortgage debt of $10.4 million, is subject to variable interest rates. For every 1% change in base market rates, interest expense will change by $104,000 per annum.

Mitigating factors and strategies:

- The Company has fixed the interest rate on 74% of its loans, which totals $29.6 million.

CONTROL BY PRINCIPAL SHAREHOLDERS

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

Critical Accounting Policies and Estimates

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

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

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

REVENUE RECOGNITION

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

ACCOUNTS RECEIVABLE

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

IMPAIRMENT AND RECOVERABILITY OF PROPERTY PLANT AND EQUIPMENT

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

USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment are depreciated on a straight-line basis over their estimated useful life. Approximately 85% of the Company's total assets are comprised of recreational properties. The selection method of depreciation and length of the depreciation period could have a material impact on depreciation expense and the net book value of the Company's assets. Assets may become obsolete or require replacement before the end of their estimated useful lives, in which case any remaining unamortized costs would be written off.

ACCOUNTING FOR STOCK-BASED COMPENSATION

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

DEFERRED INCOME TAX

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

Michael F. Gellard
Senior VP and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT & CONSOLIDATED FINANCIAL STATEMENTS

KPMG

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Canlan Ice Sports Corp.

We have audited the accompanying consolidated financial statements of Canlan Ice Sports Corp., which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, the consolidated statements of earnings and comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Canlan Ice Sports Corp. as at December 31, 2013 and 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants

March 20, 2014
Vancouver, Canada

CANLAN ICE SPORTS CORP.

Consolidated Statements of Financial Position
(Expressed in thousands of dollars)

Years ended December 31, 2013 and 2012

		2013		2012
Assets				
Current assets:				
Cash and cash equivalents	$	10,080	$	12,900
Accounts receivable		2,333		1,820
Inventory (note 5)		1,095		1,075
Prepaid expenses		421		508
		13,929		16,303
Non-current assets:				
Property, plant and equipment - facilities (note 6)		89,401		84,384
Investment properties (note 7)		570		570
Deferred tax assets (note 15b)		1,234		1,082
Other assets		427		485
		91,632		86,521
	$	105,561	$	102,824
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities (note 8)	$	7,360	$	6,914
Deferred revenue and customer deposits		11,216		11,348
Financial liability held for trading (note 16a)		19		38
Current portion of:				
Obligations under finance leases (note 9)		493		459
Debt on ice rinks (note 10)		12,713		3,133
		31,801		21,892
Non-current liabilities:				
Obligations under finance leases (note 9)		966		727
Debt on ice rinks (note 10)		27,061		34,699
Deferred tax liabilities (note 15b)		777		579
		28,804		36,005
Total liabilities		60,605		57,897
Shareholders' equity:				
Share capital (note 11)		63,109		63,109
Contributed surplus		543		543
Deficit		(18,696)		(18,725)
		44,956		44,927
	$	105,561	$	102,824

Nature of operations (note 2)
Commitments and contingencies (note 14)
Subsequent events (notes 10, 11, 12, 14(c))

The accompanying notes form an integral part of these consolidated financial statements.

Approved on behalf of the Board:

Wm G. B. Ballantyne Director — **W. Grant Ballantyne**

Director — **Joey St-Aubin**

CANLAN ICE SPORTS CORP.

Consolidated Statements of Earnings and Comprehensive Income
(Expressed in thousands of dollars, except for share and per share amounts)

Years ended December 31, 2013 and 2012

	2013	2012
Revenue:		
Ice rink and recreational facilities (note 19)	$ 72,791	$ 72,823
Expenses (note 21):		
Ice rinks and recreational facilities:		
Salaries, wages and benefits	28,131	27,718
Selling, customer service and other	10,885	10,084
Utilities	6,201	6,692
Cost of goods sold	5,518	5,486
Repairs and maintenance	3,641	3,370
Property tax	2,634	2,781
Facility lease	1,759	1,781
	58,769	57,912
Earnings from ice rink and recreational facilities	14,022	14,911
General and administration expenses (notes 13 and 21)	4,234	5,154
Earnings before the undernoted	9,788	9,757
Other expenses (income) (note 21):		
Depreciation	5,633	5,112
Other	95	(23)
	5,728	5,089
Finance income (costs):		
Finance income	91	156
Finance costs	(2,462)	(2,537)
	(2,371)	(2,381)
Earnings before income taxes	1,689	2,287
Income tax expense (note 15):		
Current	547	-
Deferred	46	992
	593	992
Net earnings and comprehensive income	$ 1,096	$ 1,295
Basic and fully diluted earnings per share	$ 0.08	$ 0.10
Weighted average common shares issued for basic and diluted earnings per share calculations	13,337,448	13,337,448

The accompanying notes form an integral part of these consolidated financial statements.

CANLAN ICE SPORTS CORP.

Consolidated Statements of Changes in Equity
(Expressed in thousands of dollars)

Years ended December 31, 2013 and 2012

	Share capital	Contributed surplus	Deficit	Total
Balance at January 1, 2012	$ 63,109	$ 543	$ (19,020)	$ 44,632
Net earnings and comprehensive income	-	-	1,295	1,295
Dividends to common shareholders	-	-	(1,000)	(1,000)
Balance at December 31, 2012	63,109	543	(18,725)	44,927
Net earnings and comprehensive income	-	-	1,096	1,096
Dividends to common shareholders	-	-	(1,067)	(1,067)
Balance at December 31, 2013	$ 63,109	$ 543	$ (18,696)	$ 44,956

The accompanying notes form an integral part of these consolidated financial statements.

CANLAN ICE SPORTS CORP.

Consolidated Statements of Cash Flows
(Expressed in thousands of dollars)

Years ended December 31, 2013 and 2012

	2013	2012
Cash provided by (used in):		
Operating:		
Net earnings	$ 1,096	$ 1,295
Adjustments for:		
Depreciation	5,633	5,112
Net finance costs	2,371	2,381
Deferred Income taxes	46	992
Net change in non-cash working capital (note 20)	(239)	782
Interest paid	(2,424)	(2,476)
Interest received	73	80
Taxes paid	-	(16)
	6,556	8,150
Financing:		
Principal repayments of debt on ice rinks	(3,094)	(3,127)
Increase in principal of debt on ice rinks	5,000	-
Principal repayments on obligations under finance lease	(621)	(491)
Payment of dividends on common shares	(1,067)	(935)
	218	(4,553)
Investments:		
Expenditures on ice rink and recreational facilities	(9,576)	(4,323)
Expenditures on other assets	(125)	(197)
	(9,701)	(4,520)
Effect of changes in foreign currency rates on cash and cash equivalents	107	(63)
Decrease in cash and cash equivalents	(2,820)	(986)
Cash and cash equivalents, beginning of year	12,900	13,886
Cash and cash equivalents, end of year	$ 10,080	$ 12,900

Supplemental cash flow information (note 20)

The accompanying notes form an integral part of these consolidated financial statements.

1. Reporting entity:

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

2. Nature of operations:

The Company has long-term debt with principal payments coinciding with the Company's seasonal business such that the Company expects that it will not require financing during the off peak hockey season. The Company has five long-term debt agreements, two of which mature in September 2014 and the others from 2016 to 2020 (note 10). At December 31, 2013, the debt payable of $10,298,000 that matures in 2014 has been classified as a current liability as it is contractually due within one year. The Company expects to refinance the debt prior to its maturity. Excluding the effects of this presentation, the Company has a working capital deficiency of approximately $9,106,000 as the Company finances a portion of its assets through customer deposits.

3. Basis of preparation:

(a) Statement of compliance:

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

The consolidated financial statements were authorized for issue by the Board of Directors on March 20, 2014.

(b) Basis of measurement:

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

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

(c) Functional and presentation currency:

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

3. Basis of preparation (continued):

(d) Use of estimates and judgments:

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

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

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

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

3. Basis of preparation (continued):

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

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

- *Recoverability of property, plant, and equipment* - the recoverability of the Company's recreational properties is based on future discounted cash flows expected to be generated from such assets. These cash flows are based on management's approved budgets and projections. When appropriate, third-party appraisals will also be used to assess the recoverability of recreational properties.
- *Useful lives of property, plant, and equipment* - property, plant, and equipment are depreciated on a straight-line basis over their estimated useful life. Approximately 85% of the Company's total assets are comprised of recreational properties. The selection method of depreciation and length of the depreciation period could have a material impact on depreciation expense and the net book value of the Company's assets. Assets may become obsolete or require replacement before the end of their estimated useful lives, in which case any remaining unamortized costs would be written off.

4. Significant accounting policies:

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

(a) Basis of consolidation:

(*i*) Subsidiaries:

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

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

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

4. Significant accounting policies (continued):

(a) Basis of consolidation (continued):

(*ii*) Transactions eliminated on consolidation:

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

(b) Inventory:

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

(c) Property, plant, and equipment:

(*i*) Recognition and measurement:

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

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

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

(*ii*) Subsequent costs:

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

4. Significant accounting policies (continued):

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

(*iii*) Depreciation:

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

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

Asset	Rate
Buildings	40 years
Rink board systems	25 years
Refrigeration equipment	20 years
Building improvements	10 years
Leasehold improvements	Shorter of useful life or remaining lease term
Machinery and equipment	10 years
Computers, furniture and fixtures	5 years
Ice resurfacing equipment	5 years

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

(d) Investment property:

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

(e) Other assets:

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

4. Significant accounting policies (continued):

(f) Leased assets:

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

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

(g) Lease payments:

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

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

(h) Revenue recognition:

(*i*) Ice and field time:

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

(*ii*) Goods sold:

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

(*iii*) Sponsorship:

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

(*iv*) Management contracts:

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

4. Significant accounting policies (continued):

(h) Revenue recognition (continued):

(v) Rental income:

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

(i) Foreign currency:

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

(j) Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company measures financial instruments and discloses select non-financial assets at fair value at each reporting period.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement or disclosure:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at measurement date.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for assets or liability.

4. Significant accounting policies (continued):

(k) Financial instruments:

(*i*) Non-derivative financial assets:

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

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

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

(*ii*) Non-derivative financial liabilities:

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

(*iii*) Derivative financial instruments:

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

On October 21, 2011, the Company entered into an interest rate swap contract used to manage the exposure to market risks from changing interest rates. This instrument has not been designated as a hedge and is marked to market. The resulting unrealized gains and losses during the period are recorded in net earnings with a corresponding asset or liability recorded on the consolidated statement of financial position. Payments and receipts under the interest rate swap contract are recognized as adjustments to interest expense which are recognized within finance costs.

4. Significant accounting policies (continued):

(l) Earnings per share:

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

(m) Employee benefits:

(*i*) Defined contribution plans:

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in net earnings in the period in which services are rendered by employees. Contributions to a defined contribution plan that are due more than twelve months after the end of the period in which the employees render the service are discounted to their present value. On January 1, 2010, the Company established a defined contribution plan for its employees whereby the Company matches contributions to a maximum of 4% of salaries. Included in salaries, wages and benefits within ice rink and recreational facilities and general and administrative expenses is $327,000 (2012 - $310,000) in respect of the Company's contributions.

(*ii*) Share-based:

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

4. Significant accounting policies (continued):

(n) Finance income and finance costs:

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

Finance costs comprise interest expense on borrowings and obligations under finance leases, bank charges and changes in the fair value of financial assets and liabilities at fair value through profit or loss.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in net earnings using the effective interest method.

(o) Income tax:

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

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

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

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

4. Significant accounting policies (continued):

(p) Impairment:

(*i*) Financial assets:

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

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

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

(*ii*) Non-financial assets:

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

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

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

4. Significant accounting policies (continued):

(p) Impairment (continued):

(*ii*) Non-financial assets (continued):

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

(q) Segment reporting:

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

(r) Adoption of new accounting standards:

Effective January 1, 2013, the following new accounting standards were adopted by the Company:

IFRS 10 - *Consolidation* ("IFRS 10"); and

IFRS 13 - *Fair Value Measurement* ("IFRS 13").

IFRS 10 establishes the principles of control and introduces a new approach to determining whether an investor controls an investee and therefore must consolidate the investee. A single control model based on control was introduced, irrespective of the nature of the investee. The Company concluded that there were no changes to entities to be consolidated or deconsolidated on adoption of this standard.

IFRS 13 establishes a framework for measuring fair value, including a revised definition of fair value and sets out disclosure requirements. The Company concluded that there were no significant changes in the fair value measurement of financial instruments required on adoption of this new standard; however, additional disclosures have been included in the consolidated financial statements as a result of adopting IFRS 13.

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

4. Significant accounting policies (continued):

(s) New standards and interpretations not yet adopted:

In November 2009, the IASB issued IFRS 9 - *Financial Instruments* ("IFRS 9"), and in October 2010, the IASB published amendments to IFRS 9. On November 19, 2013, the IASB removed the mandatory effective date of January 1, 2015 and decided that a new date will be determined upon completion of the entire IFRS 9 project. The early adoption of the standard continues to be permitted. IFRS 9 replaces the guidance in IAS 39 - *Financial Instruments: Recognition and Measurement*, on the classification and measurement of financial assets. Adoption of this standard is not expected to have a significant effect on the consolidated financial statements of the Company.

5. Inventory:

	2013	2012
Sports store	$ 715	$ 696
Food and beverage	380	379
	$ 1,095	$ 1,075

The amount of inventory expensed during the year is presented in cost of goods sold in the consolidated statement of earnings and comprehensive income.

CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of Canadian dollars, except share and per share amounts)

Years ended December 31, 2013 and 2012

6. Property, plant and equipment - facilities:

	Land	Buildings and building improvements	Leasehold improvements	Rink board systems	Refrigeration equipment	Machinery and equipment	Computers, furniture and fixtures	Ice resurfacing equipment	Work in process	Total
Cost										
Balance at December 31, 2011	$ 14,388	$ 90,542	$ 36	$ 3,442	$ 8,417	$ 8,332	$ 7,570	$ 3,966	$ -	$ 136,693
Reclassification from investment property	94	-	-	-	-	-	-	-	-	94
Additions	-	941	1,671	477	137	617	715	368	-	4,926
Disposals	-	-	-	(35)	-	-	(5)	(75)	-	(115)
Balance at December 31, 2012	$ 14,482	$ 91,483	$ 1,707	$ 3,884	$ 8,554	$ 8,949	$ 8,280	$ 4,259	$ -	$ 141,598
Additions	-	5,573	176	748	937	1,853	549	279	358	10,473
Disposals	-	(156)	-	(101)	-	(2)	(144)	(157)	-	(560)
Balance at December 31, 2013	$ 14,482	$ 96,900	$ 1,883	$ 4,531	$ 9,491	$ 10,800	$ 8,685	$ 4,381	$ 358	$ 151,511
Accumulated depreciation and impairment losses										
Balance at December 31, 2011	$ -	$ (31,921)	$ (21)	$ (1,693)	$ (5,171)	$ (5,145)	$ (5,429)	$ (3,010)	$ -	$ (52,390)
Depreciation for the year	-	(2,511)	(27)	(153)	(423)	(576)	(854)	(390)	-	(4,934)
Disposals	-	-	-	35	-	-	-	75	-	110
Balance at December 31, 2012	$ -	$ (34,432)	$ (48)	$ (1,811)	$ (5,594)	$ (5,721)	$ (6,283)	$ (3,325)	$ -	$ (57,214)
Depreciation for the year	-	(2,774)	(178)	(194)	(446)	(657)	(763)	(437)	-	(5,449)
Disposals	-	156	-	101	-	1	144	151	-	553
Balance at December 31, 2013	$ -	$ (37,050)	$ (226)	$ (1,904)	$ (6,040)	$ (6,377)	$ (6,902)	$ (3,611)	$ -	$ (62,110)
Carrying amounts										
Balance at December 31, 2012	$ 14,482	$ 57,051	$ 1,659	$ 2,073	$ 2,960	$ 3,228	$ 1,997	$ 934	$ -	$ 84,384
Balance at December 31, 2013	14,482	59,850	1,657	2,627	3,451	4,423	1,783	770	358	89,401

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

6. Property, plant and equipment - facilities (continued):

For the years ended December 31, 2013 and 2012, no impairment losses were recognized.

Included in property, plant, and equipment - facilities are assets under finance leases with a cost of $2,640,000 (2012 - $2,827,000) and accumulated depreciation of $1,016,000 (2012 - $1,347,000).

7. Investment properties:

	Cost	Accumulated amortization	Carrying amount
December 31, 2011	$ 664	$ -	$ 664
Reclassification to property, plant and equipment - facilities (2012)	(94)	-	(94)
December 31, 2013 and 2012	$ 570	$	$ 570

The fair value of the Company's investment properties at December 31, 2013 was $1,499,000 (2012 - $1,466,000). The Company uses a variety of valuation techniques and makes assumptions that are based on market conditions existing at each reporting period to determine fair value. The Company's investment properties are categorized as Level 3 within the fair value hierarchy. As such, the fair value was determined using valuation techniques incorporating discounted cash flows and expertise of an independent local real estate agent not related to the Company. The cash flows were discounted at a pre-tax rate of 5.75% over the remaining lease term and based on anticipated renewal terms. The independent real estate agent has professional qualifications and experience in the location and category of investment property being valued.

For the years ended December 31, 2013 and 2012, no impairment losses were recognized.

In 2013, income earned on investment properties was $88,000 (2012 - $92,000) with no direct expenses in 2013 (2012 - nil).

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

8. Accounts payable and accrued liabilities:

Accounts payable and accrued liabilities consist of the following:

	2013	2012
Trade payables	$ 2,638	$ 1,969
Wages payable	1,989	2,160
Other accrued liabilities	1,659	1,584
Income tax payable	528	-
Indirect tax payables	490	592
Stock appreciation rights	56	609
	$ 7,360	$ 6,914

All current trade and accrued liabilities are interest-free and payable within 12 months.

9. Obligations under finance leases:

Total minimum lease payments are as follows:

	2013	2012
Not later than one year	$ 557	$ 545
Later than one year and not later than five years	1,121	841
Later than five years	5	3
	1,683	1,389
Interest (rates vary from 4% to 8%)	224	203
Present value of minimum finance lease payments	1,459	1,186
Current portion	493	459
Long-term portion	$ 966	$ 727

Lease obligations are secured directly by the leased assets.

Interest of $118,000 (2012 - $97,000) relating to capital lease obligations has been included in finance costs.

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

10. Debt on ice rinks:

	Maturity dates	Interest rates	2013	2012
Fixed rate	2018	6.79%	$ 22,500	$ 24,000
Variable rate	2014	Prime + 1.25%	7,117	8,013
	2014	Prime + 1.25%	3,181	3,753
	2016	LIBOR + 2.50%	2,273	2,298
	2020	BA + 2.50%	4,898	-
			39,969	38,064
Deferred financing costs			(195)	(232)
			39,774	37,832
Current portion			12,713	3,133
Non-current portion			$ 27,061	$ 34,699

As at December 31, 2013, debt on ice rinks consists of five credit facilities with three lending institutions as follows:

- $30,000,000 loan maturing on July 15, 2018, fixed interest at 6.79% per annum, payable monthly. At December 31, 2013, the balance outstanding was $22,500,000;
- $9,000,000 loan maturing on September 30, 2014, interest at Prime rate plus 1.25% payable monthly. The Company has entered into an interest rate swap agreement to fix the interest rate on the total principal borrowed at a rate of 4.15% per annum, under an agreement expiring on September 30, 2014. At December 31, 2013, the balance outstanding was $7,117,000;
- $5,381,000 loan maturing on September 30, 2014, interest at Prime rate plus 1.25% per annum, payable monthly. At December 31, 2013, the balance outstanding was $3,181,000;
- $2,555,000 loan maturing on September 30, 2016, interest at LIBOR plus 2.5% per annum, payable monthly. At December 31, 2013, the balance outstanding was $2,273,000. This loan is denominated in U.S. currency; and
- $5,000,000 loan maturing on June 30, 2020, interest at the 30-day Canadian Bankers Acceptance rate plus 2.50% per annum. Installments of principal and interest are payable monthly with an amortization period of seven years. At December 31, 2013, the balance outstanding was $4,898,000. The credit facility was used to finance capital expenditures related to specific capital projects in three of the Company's recreation facilities.

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

10. Debt on ice rinks (continued):

Amortization of deferred financing costs totaling $63,000 (2012 - $60,000) was recorded in finance costs. Debt on ice rinks is secured by first mortgages, demand debentures, general security agreements, general assignments of book debts, assignments of rents and insurance, and specific pledging of title to, and interest in the respective land and buildings.

The Company has available, a $1,000,000 uncommitted operating line of credit that was unused at December 31, 2013. In January 2014, the available uncommitted operating line of credit was reduced to $745,000 as $255,000 was notionally utilized to secure additional letters of guarantee (note14(c)). Outstanding amounts would incur interest at the Prime rate plus 1.75%, and be secured by general security agreements. The operating line of credit expires on September 30, 2014. No amounts were drawn from this line of credit as at December 31, 2013. In addition, the Company has available, a $5,000,000 committed revolving credit facility. Outstanding amounts would incur interest at Prime rate plus 1.25%. The revolving credit facility expires on September 30, 2014. This credit facility was unused at December 31, 2013.

11. Share capital:

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

	Number of shares	Amount
(a) Authorized: 500,000,000 common shares of no par value		
(b) Issued and outstanding: December 31, 2013 and 2012	13,337,448	$ 63,109

On November 13, 2013, the Company declared a quarterly dividend of $0.02 per share which was paid on January 15, 2014. In addition, the Company paid quarterly dividends of $0.02 per share on each of April 17, July 17, and October 15, 2013.

For the year ended December 31, 2013, the Company declared dividends in the amount of $1,067,000 (2012 - $1,000,000) and paid dividends in the amount of $1,067,000 (2012 - $935,000).

12. Stock-based compensation:

In 2005, the Company established a Stock Appreciation Rights plan (the SARs 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 SARs 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.

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

12. Stock-based compensation (continued):

The table below summarizes the change in the number of SARs:

	Number of SARs	Weighted average exercise price
Number of SARs outstanding, December 31, 2011	760,750	$ 1.80
Exercised	(52,725)	1.60
Number of SARs outstanding, December 31, 2012	708,025	1.81
Granted	650,250	2.30
Exercised	(580,025)	1.84
Balance, December 31, 2013	778,250	$ 2.20
Exercisable, December 31, 2012	474,058	$ 1.75
Exercisable, December 31, 2013	97,000	$ 1.68

The following table summarizes information about the stock appreciation rights outstanding at December 31, 2013:

	Rights outstanding			Rights exercisable	
Exercise price	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
$ 1.50	35,000	4 months	$ 1.50	35,000	$ 1.50
$ 1.80	58,000	6 months	$ 1.80	38,667	$ 1.80
$ 1.75	35,000	11 months	$ 1.75	23,333	$ 1.75
$ 2.30	650,250	35 months	$ 2.30	-	$ 2.30

During the year ended December 31, 2013, the Company recognized compensation recovery of $68,000 (2012 - expense of $534,000) in respect of the SARs Plan. This amount was calculated in accordance with the fair value method of accounting. At December 31, 2013, the SARs liability included within accounts payable and accrued liabilities was $56,000 (2012 - $609,000). In January 2014, 35,000 SARs were exercised at $1.50.

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

12. Stock-based compensation (continued):

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

	2013	2012
Risk free interest rate	1.62%	1.30%
Expected dividend yield	3.70%	2.67%
Remaining lives of rights	4 to 35 months	12 to 24 months
Expected volatility	25% - 28%	25% - 27%

Risk free interest rate is the Government of Canada long-term bond rate. Expected dividend yield assumes a continuation of the most recent dividend payment for the quarterly dividends. Expected lives of rights is based on historical experience of rights being exercised. Expected volatility is based on the historical share price volatility over the past 6 months to 35 months.

13. General and administration expenses:

General and administration expenses consist of the following:

	2013	2012
Salaries, wages and benefits	$ 3,331	$ 3,373
Stock appreciation rights	(68)	534
Professional and regulatory fees	325	591
Office	287	275
Travel	216	204
Other	143	177
	$ 4,234	$ 5,154

14. Commitments and contingencies:

(a) At December 31, 2013, the Company has lease agreements with third parties under the terms of which the Company leases and operates certain ice rink and recreational facilities. During the lease terms, the Company assumes the financial risks and rewards of the facilities' operations, but there will be no transfer of ownership. Accordingly, the lease agreements have been accounted for as operating leases. The total minimum lease payments are as follows:

Not later than one year	$ 1,798
Later than one year and not later than five years	7,588
Later than five years	20,070

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

14. Commitments and contingencies (continued):

(a) Continued:

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

Terms of facility operating leases are as follows:

(*i*) A two-pad facility in British Columbia with a lease term that ends on December 31, 2024.

(*ii*) A two-pad facility in Ontario with a lease term that ends on January 31, 2020.

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

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

(*v*) A multi-sport facility in Mississauga with a lease term that began on April 1, 2012 and will end on October 15, 2023 with two five-year renewal options.

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

(c) At December 31, 2013, the Company has letters of guarantee outstanding with various vendors in the amount of $555,000. The Company has increased the letters of guarantee to $1,055,000 on January 11, 2014.

15. Income taxes:

(a) The major factors which caused variations from the Company's expected combined federal and provincial income tax rate of 32% for 2013 (2012 - 33%) were as follows:

	2013	2012
Statutory rate applied to earnings before income taxes	$ 541	$ 755
Change in deferred tax assets not recognized	442	305
Substantively enacted tax rate change	(133)	(47)
Permanent differences and other	(257)	(21)
Income tax expense	$ 593	$ 992

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

15. Income taxes (continued):

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

	2013	2012
Deferred income tax assets:		
Unused tax losses	$ 77	$ 93
Deferred revenue	157	106
Properties	919	872
Other	81	11
	1,234	1,082
Deferred income tax liability:		
Properties	(737)	(524)
Financing fees	(40)	(55)
	(777)	(579)
Net deferred income tax assets	$ 457	$ 503

The following deferred tax assets have not been recognized as at December 31, 2013 and December 31, 2012:

	2013	2012
U.S. Tax losses set to expire between 2018 and 2033	$ 2,774	$ 2,332
Tax losses that do not expire	42	42
Deductible temporary differences	61	61
	$ 2,877	$ 2,435

16. Financial instruments:

(a) Fair value:

The Company has the following financial instruments: cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, debt on ice rinks, and financial liability held for trading. The carrying values of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities are considered by management to approximate their fair values due to their short-term nature.

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

16. Financial instruments (continued):

(a) Fair value (continued):

Debt on ice rinks are categorized as Level 2 within the fair value hierarchy. The fair values of debt on ice rinks included in the statement of financial position are as follows:

	2013		2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Debt on ice rinks	$ 39,774	$ 40,780	$ 37,832	$ 38,530

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 10). The fair value of the instrument has been presented as a current liability on the statement of financial position. At December 31, 2013, the fair value was $19,000 (2012 - $38,000). Changes in the fair value of the instrument are recognized in net earnings. For the year ended December 31, 2013, a gain of $19,000 (2012 - $76,000) was recognized.

The interest rate swap is classified as Level 2 in the fair value hierarchy.

(b) Financial risk management:

(*i*) Interest rate risk:

The terms of the Company's outstanding debt are described in note 10. 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 future periods. A change in the base market rates upon which these loans accrue interest by 1% will increase or decrease interest expense by approximately $104,000 (2012 - $61,000) per annum.

(*ii*) Liquidity risk:

Liquidity risk is the risk from the Company's potential inability to meet its financial obligations. The Company constantly monitors its cash flows and operations to ensure current and long-term obligations can be met. The Company's capital resources are comprised of cash and cash equivalents and cash flow from operating activities. A portion of the cash and cash equivalents at December 31, 2013 consists of customer deposits received in advance of the services being provided.

16. Financial instruments (continued):

(b) Financial risk management (continued):

(*iii*) Credit risk:

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

(*iv*) Currency risk:

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currency of the Company, the Canadian dollar. The currency in which these transactions primarily are denominated in is the U.S. dollar. At December 31, 2013, the Company has US$2,139,000 debt on ice rinks repayable in U.S. currency (note 10). The Company is exposed to the risk of loss depending on the relative movement of this currency against the Canadian dollar. The Company does not currently enter into forward contracts to mitigate this risk.

17. Capital risk management:

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

The Company's objectives when managing its capital are:

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

(b) To comply with debt covenants;

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

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

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

17. Capital risk management (continued):

The Company executes a planning and budgeting process to determine the funds required to ensure the Company has appropriate liquidity to meets its operating and growth objectives. The Company ensures that there are sufficient credit facilities to meet its current and future business requirements, taking into account its anticipated cash flows from operations and its holding of cash and cash equivalents. The Company complies with covenant criteria established by its lenders. These include tangible net worth and debt coverage ratio measurements. As at December 31, 2013 and 2012, the Company was in compliance with these covenants. The Company is not subject to any statutory capital requirements, and has not made any changes with respect to its overall capital management strategy during the years ended December 31, 2013 and 2012.

18. Related party transactions:

(a) During the year, the Company expensed $162,000 (2012 - $164,000) in directors' fees.

(b) The Chairman of the Board of Directors of the Company is a Director, and a Director of the Company is the Chairman of the Board of Directors of a vendor from which the Company purchases services in the normal course of business. Purchases from this vendor for the year ended December 31, 2013 was $56,000 (2012 - $49,900).

(c) The Company's majority shareholder is Bartrac Investments Ltd. ("Bartrac"). Two of the Company's Directors are also directors of Bartrac. During the year ended December 31, 2013 and 2012, there were no related party transactions between the Company and Bartrac.

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

	2013	2012
Short-term employee benefits	$ 1,700	$ 1,675
Post employment benefits	70	49
Stock appreciation rights	(68)	534
	$ 1,702	$ 2,258

(e) Directors and executive officers participate in the Company's stock appreciation rights program (note 12). During the year ended December 31, 2013, the Company paid $484,000 (2012 - $31,000) related to stock appreciation rights exercised.

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

19. Segmented information:

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

(a) Ice rink and recreational facilities revenue:

	2013	2012
Ice and field sales	$ 54,611	$ 54,369
Food and beverage	11,050	11,313
Sports store	2,062	2,037
Tournament operations	2,176	1,984
Sponsorship	1,221	1,361
Space rental	768	764
Management and consulting fees	180	215
Other	723	780
	$ 72,791	$ 72,823

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

(b) Geographic:

	2013			2012		
	Canada	USA	Total	Canada	USA	Total
Revenue	$ 67,939	$ 4,852	$ 72,791	$ 68,378	$ 4,445	$ 72,823
Net earnings (loss) before tax	2,093	(404)	1,689	3,304	(1,017)	2,287
Non-current assets	86,889	4,743	91,632	81,815	4,706	86,521
Total assets	99,119	6,442	105,561	96,343	6,481	102,824

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

20. Supplemental cash flow information:

		2013		2012
(a) Net changes in non-cash working capital:				
Accounts receivable	$	(513)	$	(103)
Inventory		(20)		46
Prepaid expenses		87		52
Accounts payable and accrued liabilities		446		871
Deferred revenue and customer deposits		(132)		(147)
Effect of change in foreign currency		(107)		63
	$	(239)	$	782
(b) Non-cash transactions:				
Finance lease obligations	$	897	$	603

21. Expenses by function:

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

		2013		2012
Ice rink and recreational facilities expense	$	64,218	$	62,846
General and administrative expenses	$	4,418	$	5,332
Other expenses (income)	$	95	$	23

The changes in the above table, as compared to the consolidated statement of earnings and comprehensive income, relate to depreciation of $5,633,000 (2012 - $5,112,000) being allocated from other expenses to ice rink and recreational facilities in the amount of $5,449,000 (2012 - $4,934,000), and to general and administrative expenses in the amount of $184,000 (2012 - $178,000).

Five Year Review

Five Year Review

Statements of Financial Position

IN THOUSANDS, EXCEPT STATISTICS	2013	IFRS 2012	2011	2010	PREVIOUS GAAP 2009
Assets:					
Property, plant and equipment – facilities	**$ 89,401**	$ 84,384	$ 84,303	$ 84,600	$ 95,922
Other	**14,926**	17,358	18,412	17,612	13,779
Deferred tax assets	**1,234**	1,082	2,025	3,414	3,847
	$ 105,561	$ 102,824	$ 104,740	$ 105,626	$ 113,548
Liabilities:					
Ice rink mortgages	**$ 39,774**	$ 37,832	$ 40,899	$ 44,022	$ 46,595
Other	**20,054**	19,486	18,666	18,348	19,393
Deferred tax liabilities	**777**	579	543	667	1,387
	$ 60,605	$ 57,897	$ 60,108	$ 63,037	$ 67,375
Shareholders' equity:					
Share capital	**$ 63,109**	$ 63,109	$ 63,109	$ 63,109	$ 63,109
Contributed surplus	**543**	543	543	543	543
Deficit	**(18,696)**	(18,725)	(19,020)	(21,063)	(17,479)
	$ 44,956	$ 44,927	$ 44,632	$ 42,589	$ 46,173
Statistics:					
Debt to equity ratio	**0.92:1**	0.87:1	0.94:1	1.07:1	1.05:1
Share price range	**$2.08-3.19**	$1.7-3.46	$1.60-2.23	$1.50-2.25	$1.00-1.50

Statements of Earnings

IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS	2013	IFRS 2012	2011	2010	PREVIOUS GAAP 2009
Facility revenue	**$ 72,791**	$ 72,823	$ 71,966	$ 69,909	$ 67,196
Facility operating expenses	**58,769**	57,912	57,847	55,627	52,142
General and administrative	**4,234**	5,154	4,271	4,564	4,139
	$ 63,003	$ 63,066	$ 62,118	$ 60,191	$ 56,281
Earnings before interest, taxes, depreciation and amortization	**9,788**	9,757	9,848	9,718	10,915
Other expenses:					
Depreciation	**5,633**	5,112	5,150	4,986	4,467
Net finance cost	**2,371**	2,381	2,867	3,015	3,177
Other	**95**	(23)	(2,282)	(78)	(62)
Income tax expense	**593**	992	1,269	1,062	599
	8,692	8,462	7,004	8,985	8,181
Net earnings	**$ 1,096**	$ 1,295	$ 2,844	$ 733	$ 2,734
Basic & fully diluted earnings per common share	**$.0.08**	$0.10	$0.21	$0.05	$0.20
Issued and average shares outstanding at year end	**13,337,448**	13,337,448	13,337,448	13,337,448	13,337,448

Corporate Information

DIRECTORS

Charles Allen
Chairman, TeraGo Inc.
Whitby, ON

W. Grant Ballantyne
Chairman, Canlan Ice Sports Corp.
Victoria, BC

Frank D. Barker
Partner, Kinetic Capital Partners
Vancouver, BC

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

William G. Bullis
Retired
Victoria, BC

Victor D'Souza
Managing Director,
Reignite Capital
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

Michael F. Gellard
Senior Vice-President & CFO

Mark Faubert
Senior Vice-President of Operations

Ken Male
Vice-President
Partnership Solutions

Paul Dillon
Vice-President
Sales, Marketing & Service

Shari Lichterman
Vice-President
Eastern Operations

Greg Porcellato
Vice-President
Western Operations

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

Ivan C. Wu
Vice-President
Finance

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